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THE GROWTH OF THE JAPANESE ECONOMY:
CHALLENGES TO AMERICAN NATIONAL SECURITY

by

Dale Thomas Frankenberger

September 1991

Thesis Advisor:

Claude A. Buss

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THE GROWTH OF THE JAPANESE ECONOMY:
CHALLENGES TO AMERICAN NATIONAL SECURITY

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ABSTRACT

As the Japanese economy has grown more powerful over the last two decades, there has been an increasing number of influential Americans who have voiced the fear that sharp economic competition from Japan is beginning to threaten the health of the US economy. There is a wide-spread perception that Japan is a "neo-mercantilist" nation which engages in predatory and unfair trade practices. Japan-bashers maintain that the Japanese believe that there is little distinction between economic security and national security and that their mercantilist approach to doing business threatens American national security by weakening critical elements of the US economy. By examining the extent and the nature of the Japanese economic presence in the world marketplace, this thesis will show that this Japanese economic challenge poses no real danger to American economic interests except in one critical area--the development and control of high technology.

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I. INTRODUCTION

The United States' bilateral relations with Japan are becoming increasingly strained as the asymmetrical nature of Japanese economic competition continues to help cause large dislocations in the American economy. As the Japanese economy has grown more powerful over the last two decades, there has been a growing number of influential Americans who have voiced the fear that sharp economic competition from Japan is beginning to threaten the very health of the US economy. There is a widespread perception among many of them that Japan is a "neo-mercantilist" nation which consciously engages in predatory and unfair trade practices. These "Japan-bashers," as they are colloquially called, maintain that the Japanese firmly believe that there is little distinction between economic security and national security, and that their mercantilist approach to doing business threatens American national security by weakening and destroying critical elements of the US economy.

This groundswell of animosity towards Japan threatens to endanger a long-standing alliance between two of the world's most powerful nations. It is an alliance to which the United States initially committed itself in 1951, and then later revised within the revamped framework of the U.S.-Japan Mutual Security Treaty of 1960. It is also a strategic relationship

which came into being as a handmaiden to the Cold War in Asia, and as such, it has generally served American global interests for almost four decades. But, whereas today "...the majority of the American public continues to support the use of troops in a crisis situation in Europe, less than half of the public favors the use of troops to defend against an attack on Japan."¹ This growing reluctance among the American people to defend Japan, despite the US treaty obligation, is a direct result of Japan's astounding success in the world marketplace. Public opinion polls conducted in the US have consistently shown over the last few years, that "by substantial margins, both the public and leaders believe the economic power of Japan will be a more critical threat to American vital interests in the next few years than will Soviet military power."² In fact, "as America's historic fears of a Soviet Communist threat recede, new fears of a Japan bent on world economic domination are coming to the fore."³ Yet, even though it is clear that American views of Japan have changed

¹John E. Rielly, "Public Opinion: The Pulse of the '90s," Foreign Policy 82, (Spring 1991): 80.

²Ibid., 80. Rielly gives specific numbers on page 86, where he states that "...60% of the public and 63% of leaders believe the economic power of Japan will be a 'critical threat'." These surveys were conducted when the Soviet military threat was still believed to be both substantial and credible. This perception about Japan, however, is only likely to sharpen as the Soviet military threat continues to recede.

³Yoshi Tsurumi, "U.S.-Japanese Relations: From Brinkmanship To Statemanship," World Policy Journal VII, (Winter 1989-90): 1.

significantly for the worse over the course of the last two decades, US policy-makers still continue to view this trans-Pacific alliance as critical to American national security. For instance, in the 1990 edition of National Security Strategy of the United States, the White House declared quite straightforwardly that:

Our alliance with Japan remains a centerpiece of our security policy and an important anchor of stability. Japan's importance is now global. Our relationship is one of the most important bilateral relationships in the world and it is in our strategic interest to preserve it.⁴

Japan's *global* significance is due primarily to its growing *economic* dominance in many areas of industry and finance. That fact alone makes the US-Japanese bilateral relationship of vast strategic importance, because the two nations are by far the most important players in the world's financial and commercial markets. For instance, the two nations possess the world's two most powerful economies; and, together, Japan and the United States have combined gross national products (GNP) that account for about 40 percent of total global GNP.⁵ Perhaps even more striking is the fact that:

With just 7 percent of the world's population, the two economies produce 30 percent of the world's goods and control a similarly disproportionate percentage of global trade. Together the two countries account for nearly

⁴The White House, National Security Strategy of the United States, March 1990, 12.

⁵Huntington Hardisty, "Statement of the Commander in Chief, U.S. Pacific Command" before the Senate Appropriations Defense Subcommittee, 1 March 1990, 4.

three-quarters of world stock and bond market value and half of all bank lending. They issue 80 percent of the money used by other nations as reserve currencies.⁶

Looking at these impressive statistics, it should be no surprise to find out that the two countries are also the world's largest foreign aid donors and play commanding roles in influential financial organizations like the World Bank, the International Monetary Fund (IMF) and the Asian Development Bank.⁷ The economic *interrelationship* between the United States and Japan is also extremely significant, for the two countries are not only each other's largest overseas trading partners, they are also tightly bound together by mutual direct investments of many billions of dollars.

How these two countries conduct their bilateral trade relations is therefore of great importance, and there exists a real danger that strident American complaints about Japanese competition could obscure some of the real reasons behind America's economic problems, and lead to harsh protectionist actions in the United States--protectionist actions which could be specifically directed against Japan, and which would then serve to create not only a disastrous cleavage between the two economies, but also a swift and acrimonious breakdown of the alliance between the two nations. Any serious economic

⁶Daniel Burstein, Yen! Japan's New Financial Empire And Its Threat to America (New York: Fawcett Columbine, 1988), 22.

⁷Department of State, "U.S.-Japan Relations," Gist, June 1990, 1.

dispute between the two of them would result in severe tremblings all over the the globe and threaten a return to the protectionist nationalism that prevailed in the 1930s. For this reason alone, the United States must come to understand the differences between the two economic systems so that it can better negotiate mutually-advantageous trade relations. As the Commission on US-Japan Relations for the Twenty First Century warns:

The United States and Japan are bound together in a relationship vital to both nations, and to the world. But goodwill between the two nations is eroding, sparked by disputes over a stubborn trade imbalance. Recriminations threatens to emphasize negatives here and in Japan. At risk is the capacity for cooperation between the two democracies--the key to stability and prosperity in the Pacific. At risk, too, is the ability to meet the worldwide challenges of the next century.⁸

If it is in our strategic interests to preserve this long-standing alliance, it then becomes imperative that US policymakers and the American public better understand both the *nature* and the *extent* of the economic relationship between the two nations. How the two countries interreact is a critical element in determining not only the health of their respective economies, but also the continued viability of the international economic system itself; consequently, clarifying these facets of the economic relationship becomes an undertaking of

⁸Francis J. McNeil, "Reassessing the U.S.-Japan Security Relationship in the Post-Cold War Context," A report prepared for the Commission on US-Japan Relations for the Twenty First Century, (Washington, D.C., May 1991), ii.

vast importance for both Japanese and US policy-makers. Without this growing clarification, it will be difficult for any American administration to properly assess the true nature, or extent, of any (potential) Japanese threat to American economic interests--difficulties which could then frustrate attempts to balance American strategic concerns in the Pacific.

In an attempt to further that understanding, this thesis will examine:

1. the changing nature of American national security policy, by examining the shift from the traditional Cold War paradigm of "anti-communism/containment," to a new policy framework which emphasizes "economic strength" over "military power" as the critical element of national security;
2. the changing US perception of how the Japanese economy has fit into American postwar national strategy--showing Japan's emerging shift from Cold War ally to "unfair" economic competitor;
3. how the capitalist systems in the United States and Japan differ, with a close examination of the nature of Japan's industrial policy and the structure of its keiretsu and kaisha;
4. the extent of the Japanese challenge, along with a look at American complaints about it;
5. relative American strengths and Japanese weaknesses, with a critical reappraisal of the seriousness of Japanese economic competition to American national security;
6. the real "war" between the US and Japan: the battle for control of high-technology, and its possible implications for American national security; and
7. possible macro-approaches to strengthening the American response to this Japanese challenge.

For many Americans "the extent of the relationship [with Japan] is far wider than most imagine,"⁹ and there is little understanding of how the Japanese economic system actually works. While many of the complaints which are voiced by the "Japan-bashers" are clearly warranted, the problem is that these complaints often either overstate the extent of Japanese economic competition, or underestimate the ability of American industry to respond to it. This thesis will attempt to show, by examining these areas, that Japanese economic competition, poses no more significant danger to American national security than that of any other determined competitor, except in one potentially critical area--the development and control of high technology.

3. ⁹Frank Gibney, Japan: The Fragile Superpower (New York: Meridian, 1986),

II. THE CHANGING NATURE OF AMERICAN NATIONAL SECURITY POLICY

The world has changed, and if the United States is to survive and prosper in George Bush's rather ill-defined "New World Order"¹⁰, it must begin to adapt itself to the new realities of an international environment which is going to be markedly different from that of the last forty-five years. Today, few American strategists would deny the critical importance of possessing a technologically-advanced industrial base which is capable of creating and sustaining not only powerful military forces but other elements of geopolitical power as well.¹¹ This recognition of the critical interrelationship between economics and the ability to exert world influence,¹²

¹⁰See in Charles Krauthammer, "Breaking the old rules," San Jose Mercury News, May 20, 1991, 7B, where the author says that this New World Order has been only vaguely defined by the President until just recently. One version of the NWO "...was offered on April 13 [1991] when, in a speech at Maxwell Air Force Base, Bush finally outlined its principal elements: "Peaceful settlements of disputes, solidarity against aggression, reduced and controlled arsenals, and just treatment of all peoples.""

¹¹See in "The Unipolar Moment," p. 24, where Krauthammer says that "the notion that economic power inevitably translates into geopolitical influence is a materialist illusion. Economic power is [though] a necessary condition for great power status." See too in Bill Emmott's The Sun Also Sets: The Limits To Japan's Economic Power (New York: Random House, 1989), p. 17, where Emmott maintains that "economic strength is always the foundation of power, whether within a world that is multipolar or one that is bipolar."

¹²See for instance in Karen Elliott House, "The '90s & Beyond: For All Its Difficulties, U.S. Stands to Retain Its Global Leadership," Wall Street Journal, 23 January 1989, sec. A1, p.6, where Admiral William J.

should then lead American policy-makers to the inevitable conclusion that a powerful economy must become the linchpin around which hinges future American success in the world.

This is certainly not a new policy idea, because American success abroad has always been tied very closely to its economic success at home. However, in its single-minded pursuit of "containment" of the Soviet Union during the postwar era, the United States has allowed itself to forget this basic truth at times. Throughout the Cold War, the United States used its open markets as a method of strengthening the economies of the Free World, and economic rivalries among the allies, no matter how potentially explosive, were not allowed to seriously endanger the foundations of the Western Alliance. As the economic leader of the Free World, the US was forced to make timely trade concessions and sacrifice certain economic interests of its own in order to resolve commercial conflicts with allies who were themselves much more concerned with trade than with the Soviet "threat."¹³ The United States seemed

Crowe, a former chairman of the Joint Chiefs of Staff, comments about the fact that nearly all of the Soviet Union's economic indicators have steadily declined over the past few years, and, that "if they aren't successful [economically], then the Soviet Union just plain isn't going to be as powerful in the future as they are today."

¹³For instance, see in Friedman and Lebard, The Coming War With Japan, p. 171, where they say that while the United States worried about commun-ist subversion and Soviet penetration everywhere, Japan was much less concerned; in fact, "the truth was that the Japanese did not take the Communist threat particularly seriously. They did not believe that Japan would be invaded by the Soviet Union...."

willing to make whatever economic sacrifices were necessary in order to maintain the cordon it had built around the Soviet Union--and economic competitors like the Europeans and the Japanese knew it.¹⁴

These economic concessions, many critics say, gradually caused not only a decrease in America's absolute economic power in the world, but also began to chip away at American security interests as certain industries began to be sacrificed in the interests of "containment" and "free trade."¹⁵ The United States began to find itself spending billions of dollars defending nations which were engaged, for all practical purposes, in a form of economic warfare against the United States itself.¹⁶ Thus, the US had to contend with not only the

¹⁴See in Pat Choate, Agents of Influence: How Japan's Lobbyists in the United States Manipulate America's Political and Economic System (New York: Alfred A. Knopf, Inc., 1990), p. 23, where Choate cites a 1988 American Enterprise Institute study of US-Japan relations which quotes Kanji Nishio's observation that America's obsession with the Cold War had allowed Japan to "conduct a diplomacy that exploited and totally used the U.S. Even if Japan was asked to take some responsibility, we could get away with avoiding it and simply pursue our own economic interests."

¹⁵For instance, the American shipbuilding industry has almost disappeared, causing US military planners to have to unduly rely upon foreign-built ships to provide the sealift capability which would be necessary for military victory in any major conflict the US would have to fight.

¹⁶See in Donald C. Hellmann, "The Imperatives for Reciprocity and Symmetry in U.S.-Japanese Economic and Defense Relations," in Sharing World Leadership?: A New Era for America & Japan, p. 243, where Hellmann addresses this part of the problem very clearly, at least in regard to Japan: "What is clear is that the present pattern of U.S.-Japanese relations cannot easily be extended far into the future. It defies both history and common sense for the world's largest debtor nation effectively

military threat of thousands of Soviet tanks poised along the Fulda Gap, but also sharp Japanese economic competition which was weakening American industry and, in some very important ways, threatening the technological lead it needed to counter the massive Soviet military machine.

The perception that this economic challenge from Japan is a danger to national security developed slowly but is now growing rapidly. In 1987, for example, James Fallows expressed a new fear that was beginning to lurk in the back of many American minds, when he said that "America doesn't have a chance to stop declining if it must keep competing with both the Russians and the Japanese."¹⁷ Japan-bashers contend that this dual-tracked competition has at times cost the United States dearly, for it has only been recently, they say, that the US has understood some of the implications of having an ally whose pursuit of profit and technological dominance sometimes endangers the military foundation of the alliance itself. John H. Makin addresses this particular problem when he observes that:

The combination of Japan's increased economic power in the 1980s, growing and highly visible Japanese direct investment

to underwrite the security of the world's largest creditor and for the political and economic costs of defense to be decoupled from economic foreign policy. Even a cursory overview of bilateral ties shows how their extra-ordinary character makes inevitable the unraveling of the alliance in the long run."

¹⁷James Fallows, "The White Peril," Atlantic Monthly, May 1987, 20.

in the United States, and the 1987 dispute over Toshiba Machine Company's illegal diversion of submarine-quieting technology to the Soviet Union [italics mine] has suggested to some that Japan's economic power is a threat to the United States. The late Theodore White vividly expressed that idea in 1985: "The Japanese are on the move again in one of history's most brilliant commercial offenses as they go about dismantling American industry."¹⁸

If Theodore White was correct and the Japanese have been intent upon dismantling American industry, then opening the American market to Japanese competition in the name of "free trade," without eventually receiving a economic *quid pro quo* on their part,¹⁹ has undoubtedly enhanced the Japanese economic position at the expense of American industry. Many domestic critics argue that because of the trade asymmetry that the United States has allowed to exist between itself and its allies, the US economy now suffers from a crumbling industrial base, large budget deficits, an eroding technological edge, and a growing sense that American firms can no longer compete with powerful economic rivals like Japan.

A. THE POSTWAR NATIONAL SECURITY ENVIRONMENT

The bipolar world of superpower confrontation between the United States and the Soviet Union is rapidly drawing to a

¹⁸John H. Makin and Donald C. Hellmann, eds., Sharing World Leadership?: A New Era for America & Japan (Washington, D.C.: American Enterprise Institute, 1989), xxi.

¹⁹A term currently in use for this expected arrangement is "fair trade" rather than "free trade."

close--there is serious doubt, in fact, about whether or not there will even be a Soviet Union in the near future, especially in light of the fast-moving events which have followed the failed coup in August by entrenched communist hardliners. As has happened so many times in the past, the world has quickly and unexpectedly arrived at a watershed of history; and today, announcements of dramatic changes in the world order seem almost commonplace as the difficult and confusing transition to a new era of international relations begins to take place.

These are both thrilling and difficult times for Americans--thrilling because the Cold War is coming rapidly to a end, and difficult because that startling fact suddenly seems to make the very foundation of American national security policy *passé*. This notion that the foundation of US policy has become obsolete with the end of the Cold War is, of course, simply an illusion, because the national interests remain fundamentally the same as they have always been--it is only the policy framework used to further those interests that has been largely overcome by events. The transition to another strategic paradigm, however, will be tough for many American policy-makers, who have been steeped for decades in the rhetoric of the Cold War and are still responding to world events with the same *Weltanschauung*. For those born since 1945, revolutionary events in the Soviet Union today are

undermining the very bedrock of their entire national experience, for the Cold War has been a harsh, enduring fact of life that seems to have existed forever. For many of those Americans, it is hard to understand that US national security in the modern world, defined as it has been by this narrow ideological confrontation with Communism and the Soviet Union, actually has a relatively short history. A quick glance into the past shows just how different the American concept of security was before the cataclysmic events of the Second World War. Political historian Stephen E. Ambrose recalls that as late as 1939:

...the United States had an Army of 185,000 men with an annual budget of less than \$500 million. America had no military alliances and no American troops were stationed in any foreign country. The domestic political mood was isolationism. America's physical security, the *sine qua non* of foreign policy, seemed assured, not because of American alliances or military strength but because of the distance between America and any potential enemy.²⁰

The Second World War and its aftermath changed all of that, as the "new world order" that Roosevelt had worked so hard to establish during the war, collapsed--and then polarized--in the early postwar period because of increasing tensions between the United States and the Soviet Union. The hostility of the Russians after 1945, along with their rapid acquisition

²⁰Stephen E. Ambrose, Rise to Globalism: American Foreign Policy Since 1938 (New York: Viking Penguin Inc., 1971), xiii.

of the atomic bomb, meant that:

Forty-five years later the United States had a huge standing Army, Air Force and Navy. The budget of the Department of Defense was over \$300 billion. The United States had military alliances with fifty nations, 1.5 million soldiers, airmen, and sailors stationed in 117 countries, and an offensive capability sufficient to destroy the world many times over....But despite all the money spent on armaments and no matter how far outward America extended her power, the technological revolution had overcome distance, and with the loss of her protective insulation,²¹ America's national security was constantly in jeopardy.

What caused this fundamental change in the American approach to national security? Primarily, two things: the advent of nuclear weapons (along with the development of intercontinental bombers and ballistic missiles capable of carrying those nuclear weapons into the territory of the United States itself), and, the emergence after the war of a militarily powerful and hostile nation which possessed those terribly destructive weapons. Both of these factors developed within a few short years of each other, and the American policy response to this radically changed security environment pushed the United States into a long and costly battle against communism and the Soviet Union. As John Lewis Gaddis points out, in referring to George Kennan's 1948 argument about the conduct of American foreign policy: "The United States could coexist with, even benefit from, diversity; what was dangerous was the combination of hostility with the ability to do some-

²¹Ibid., xiii.

thing about it," and, as a direct result of the Russians acquiring nuclear weapons, "the only nation that met Kennan's test of combining hostility with capability was, of course, the Soviet Union."²²

During the Second World War, Americans had been "...taught to assume that in Russian-American postwar collaboration lay the only assurance of future peace....," but, as Soviet actions after the war continued to mitigate against such collaboration, American postwar disillusionment grew, and US policy towards the Soviet Union "...inevitably conduced to visions of war."²³ George Kennan describes why American perceptions of its wartime ally shifted so forcefully after 1945:

Event after event: the behavior of the Soviet forces in the half of Europe they overran; the growing evidence that the Soviet authorities had no intention of permitting the free play of democratic forces in the countries of that region; their cynical reluctance to collaborate in the restoration of economic life and stability in areas they did not control; the continued secretiveness and inscrutability of Soviet policymaking and political action; the failure to enter upon any extensive demobilization of the Soviet armed forces; the narrow, suspicious, and yet greedy behavior of Soviet representatives in the new international organizations--all these things fell heavily upon a[n] [American] public in no way prepared for them....²⁴

²²John Lewis Gaddis, Strategies of Containment: A Critical Appraisal of Postwar American National Security Policy (New York: Oxford University Press, 1982), 31-33.

²³George F. Kennan, Nuclear Delusion: Soviet-American Relations In The Atomic Age (New York: Pantheon Books, 1983), 30.

²⁴Ibid., 29-30.

Yet, despite these early postwar events, there were some prominent Americans who felt that the possibility still existed for cooperation with the Russians, for "as well informed an observer as Averell Harriman believed, as he once testified to Congress, that Soviet policy in 1945 was ambivalent, either that it could have become more moderate within a framework of security and understanding with the West, or that it could have become hard-line and totalitarian, within the framework of insecurity and conflict. Harriman, though puzzled by the Russian decision in favor of the iron-fisted policy, clearly saw that Soviet expansion was neither inexorable nor inevitable."²⁵ Most Americans, however, were swayed in the other direction, and believed, like George Kennan, that Soviet behavior "...moves inexorably along the prescribed path, like a persistent toy automobile wound up and headed in a given direction, stopping only when it meets with some unanswerable force."²⁶

Kennan's famous "X" article, "The Sources of Soviet Conduct," published in Foreign Affairs in 1947, recommended that "the main element of any United States policy toward the Soviet Union must be that of a long-term, patient but firm and

²⁵Gar Alperovitz, Atomic Diplomacy: Hiroshima & Potsdam (New York: Elisabeth Sifton Books/Penguin Books, 1985), 336-337.

²⁶"X," "The Sources of Soviet Conduct," Foreign Affairs XXV, (July 1947): 575.

vigilant containment of Russian expansionist tendencies."²⁷

It was a seminal article in influencing the development of US postwar policy, and as William Appleman Williams has written:

George F. Kennan's 1946-47 explanation of Soviet behavior established the framework and set the tone for...the American discussion of Russian action. His analysis, and the more extreme interpretations derived from it, concluded that continued pressure could and would accelerate an inevitable process of dissolution. The thesis held that Soviet behavior resulted primarily (if not exclusively) from the necessity of Marxian revolutionaries having to resort to force to maintain the domination of an alien and evil ideology over Russian traditions and history. It asserted that the prime mover in Soviet action was a drive to maintain centralized power in the face of fundamental and persistent hostility.²⁸

The Russians though, were actually only the latest manifestation of a recurring strategic problem, for as Kennan himself believed, and often stated, "...the fundamental American interest throughout the twentieth century...[has] been to keep key centers of military-industrial capability from falling under hostile control. It [has] been for that reason that the United States [has] twice gone to war to prevent German domination of Europe; after 1945 the same interest required ensuring the defense of Western Europe and Japan against an ambitious but nervously insecure Soviet

²⁷Ibid., 574.

²⁸William Appleman Williams, The Tragedy of American Diplomacy (New York: W.W. Norton & Company, 1959), 278-79.

Union."²⁹ Truman recognized that totalitarian forces (like the Soviet Union) undermined "...the foundations of international peace and hence the security of the United States....," and, therefore, had to be checked in their expansion.³⁰ In pursuit of that goal, "patience and firmness" were used to block Russian ambitions immediately after the war, but as the aggressive behavior of the Soviets along the periphery of their sphere of influence became even more pronounced, the American response to Russian actions hardened, and the Truman Doctrine--as a new expression of American policy--announced "...what appeared to be a world-wide commitment to resist Soviet expansionism wherever it appeared."³¹ This commitment put the United States on a tortuous policy path which eventually led American soldiers to the battlegrounds of Korea and Vietnam, and which finally, only today, is winding its way to an end. As Gaddis says about the importance of this doctrine to the conduct of American affairs:

Truman's March 12, 1947, proclamation that "it must be the policy of the United States to support free people who are resisting attempted subjugation by armed minorities or outside pressures" has traditionally been taken as having

²⁹Terry L. Deibel and John Lewis Gaddis, eds., Containment: Concept and Policy, Vol. 1, (Washington, D.C.: National Defense University Press, 1986), 5.

³⁰Public Papers of the Presidents of the United States: Harry S. Truman, 1947 (Washington, D.C., U.S. Government Printing Office, 1963), pages 177-178, as cited in Gaddis, Strategies of Containment, 66.

³¹Gaddis, Strategies of Containment, 22.

marked a fundamental point of departure for American foreign policy in the Cold War.³²

In order to conceptualize this new direction in American foreign policy, NSC-68 was carefully drafted in an attempt to address what Paul Nitze has called "...the fundamental question of national security: How do we get from where we are to where we want to be without being struck by disaster along the way?"³³ As Nitze briefly outlines the essence of that seminal report:

NSC-68 began by defining the basic U.S. purpose, quoting from the Preamble of the Constitution, and then discussed the nature of the Soviet threat. Here we drew a clear distinction between the aims of the United States, which were to protect and preserve the institutions of a free society, and those of the Soviet Union, which centered on preserving the Soviet Communist party and its base, the USSR, but also on extending the Kremlin's domination outward as far as practicable. What we found most disturbing was not that the Soviet Union would espouse such objectives, but that it had developed a political, economic, and military structure designed specifically for their eventual realization. It followed that if the United States were to deal effectively with this threat, it had no choice other than to take the lead in initiating "a substantial and rapid building-up of strength in the free world...to support a firm policy intended to check and roll back the Kremlin's drive for world domination."³⁴

This "firm policy" towards the Soviet Union, which ultimately was fleshed out in NSC-68 as the policy of "contain-

³²Ibid., 22.

³³Paul Nitze, with Ann M. Smith and Steven L. Rearden, From Hiroshima to Glasnost: At the Center of Decision (New York: Grove Weidenfeld, 1989), 95.

³⁴Ibid., 95-96.

ment," was carefully defined as an American-led effort:

...by all means short of war to (1) block further expansion of Soviet power, (2) expose the falsities of Soviet pretensions, (3) induce a retraction of the Kremlin's control and influence and (4) in general, so foster the seeds of destruction within the Soviet system that the Kremlin is brought at least to the point of modifying its behavior to conform to generally accepted international standards.³⁵

Contrary to what many Americans remember, NSC-68 was not a recommendation for dramatically changing American policy, for "on the contrary, the report concluded by calling for the reaffirmation of what was already approved policy in NSC 20/4, a general policy paper covering our relations with the Soviet Union. That report, masterminded by George Kennan in 1948, had described the serious nature of the Soviet threat and had gone on to recommend 'timely and adequate preparation' to combat internal and external moves that might jeopardize our security."³⁶ As Paul Nitze remarks in his memoirs, "the major change recommended in NSC 68 was a stepped-up level of effort to counter recent developments, with emphasis on strengthening our military capabilities in the face of significantly increased Soviet capabilities."³⁷ It was a prescription for a military build-up far in excess of what was then the current defense policy, and it got the needed boost it required in

³⁵Gaddis, Strategies of Containment, 98-99.

³⁶Nitze, 97.

³⁷Ibid., 97.

June 1950, when the Korean War broke out and firmly launched the United States into its anti-communist crusade.

This crusade was not exactly what the Truman Administration had had in mind though, for it had tried to limit its rhetoric to simply opposing the forces of "totalitarianism;" nevertheless, "anti-communism" quickly supplanted that notion, with sometimes disastrous results for American policy in the following decades.³⁸ This broadening of the threat to include all "communism" worldwide needs to be placed in the context of the times in order to better understand why this new threat perception was able to skew almost all foreign policy decisions in the years that followed. J. William Fulbright, Chairman of the Senate Foreign Relations Committee in 1972, commented back then, in his analysis of postwar foreign policy, that:

By early 1947...the assumptions of the Cold War were all but unchallenged within the United States government and anti-communism had become a national ideology. It was *assumed* that the object of Soviet policy was the communization of the world; if Soviet behavior in Europe and northern China were not proof enough, the design was spelled out in the writings of Lenin and Marx, which our policy makers chose to read not as a body of political philosophy but as the field manual of Soviet strategy.³⁹

³⁸These disastrous policy turns can be illustrated by such Cold War travesties as the infamous McCarthy Hearings, the tragic military experience in Vietnam, and the immoral and persistent US support of "anti-communist" dictatorships throughout the world.

³⁹J. William Fulbright, The Crippled Giant: American Foreign Policy and Its Domestic Consequences (New York: Random House, 1972), 20-21.

These are some of the elements which worked to shape American national security policy over the next four decades. It was a geopolitical policy which was, in the end, narrowly defined, for "NSC-68 derived its view of American interests primarily from its perception of the Soviet threat,"⁴⁰ (along with its attendant policy correlation of "anti-communism"), and with the implementation of that strategic paradigm, the Cold War began in earnest.

B. THE END OF THE COLD WAR: ECONOMICS AS THE NEW EMPHASIS IN NATIONAL SECURITY

The Cold War has ended with a decisive victory for the United States. In the Soviet Union today, Marxism-Leninism-Stalinism is finally as dead as its revolutionary founders, and the world has witnessed such spectacles as large Soviet cranes toppling over statues of Marx and Lenin to the enthusiastic cheers of Soviet workmen. While these unexpected sights confirm the end of an era, it was actually Mikhail Gorbachev's unofficial repudiation of the Brezhnev Doctrine in 1989 which signalled the real end of the Cold War, because that action made it clear that the bankrupt Soviets were willing to sacrifice their hegemony over Central-Eastern Europe in exchange for better political and economic relations with the

⁴⁰Gaddis, Strategies of Containment, 98.

West.⁴¹ This dramatic shift in Soviet policy resulted in revolutionary changes which startled the entire world and shattered an empire.

The rapid toppling of the Soviet hegemon was the unanticipated result of loosening the totalitarian reins of control just a little too much, for when the people of Central-Eastern Europe were given an opportunity that year to make political choices which were free from the grinding influence of Soviet tanks, the oppressed workers did unite, but as they marched forward into the dawn of a new era, it was over the torn and trampled banners of Marxist-Leninism. Millions of disgruntled and impoverished "comrades" throughout that region of the world repudiated communism with a pent-up vengeance and voted to consign that tired ideology to the trash heap of history. Now, even in the Soviet Union itself, the Marxist-Leninist structure has collapsed into a confused heap of economic rubble.

As a result of these revolutionary events, the danger of military conflict with the Soviet Union is rapidly fading as

⁴¹See in Richard Nixon, In The Arena: A Memoir of Victory, Defeat, and Renewal (New York: Simon and Schuster, 1990), pp. 317-318, where Nixon commented that "all of [Gorbachev's earlier] actions [had] been directed toward two geopolitical goals. First, to revive his moribund economy, he want[ed] to gain access to Western capital and technology. He [knew] that his economic reforms [could not] succeed without this assistance, and he [was] willing to pay a geopolitical price to achieve this key objective. Second, he want[ed] to divide his adversaries and to end the political isolation of the Soviet Union."

economic concerns, ethnic violence and the threatened break-up of the Union itself, have forced the Soviet leadership to give up its old expansionist ambitions and turn its attention inward to deal with those pressing national problems. This Soviet retreat from imperialism has cracked and broken the very foundations of the postwar international *regime*, and with it the *raison d'etre* of America's postwar strategic paradigm.⁴² Even though a defeated Soviet Union remains the one nation on earth capable of destroying the United States, there still should be little doubt even in traditional "cold war" circles that "containment" of the Soviet Union can no longer serve as the linchpin of American security policy.⁴³ The

⁴²See in Charles William Maynes, "America without the Cold War," Foreign Policy 78, (Spring 1990), p. 8, where Maynes says that "perhaps the most important consequence of the Cold War's end will be to deprive the American foreign policy establishment of its main organizing principle: anticommunism. For decades this principle justified every aspect of American foreign policy from the composition of its alliances to the size of its foreign aid programs."

⁴³This proposed change in policy focus does not mean that American strategic planners can dismiss the Soviet threat, because any cautious analyst realizes that even though the Soviet Union *is* in broad retreat all across the geopolitical spectrum, it is conducting that retreat with its massive military machine still largely intact for the time being: this harsh reality demands that policy-makers understand very clearly that while Soviet/Russian intentions appear to have changed dramatically in the past few years, Soviet military capabilities continue to improve and will remain formidable for some years to come. Despite this dangerous fact, American policy-makers also must begin to recognize that although deterrence of the Soviet nuclear threat was an integral part of "containment," this connection is not conversely true. Maintaining a policy of strategic deterrence will still allow the focus of US security policy to safely swing away from the old goal of containing Soviet expansionism. The simple fact is that the Soviets no longer *need* to be contained. What is needed now is new strategic thinking that deals with the Soviet Union as an

nature of the threat has fundamentally changed, and the United States now needs to reexamine its national security policy in the bright new light of this epochal change.

Many Americans are saying that the end of the Cold War came "...not a moment too soon, for the global grand strategy of the United States can no longer be sustained by the American economy."⁴⁴ Those sobering words reflect the thoughts of many anxious Americans, who maintain that when one looks around at America's crumbling infrastructure, its bankrupt school systems, and its increasingly aging capital stock in many critical areas of industrial production, that there has been a tremendous cost in waging this Cold War, with increasing doubts in many minds as to the American ability to pay for it.⁴⁵ These doubts are not new ones either, for concerns about the cost of this "war" have played across the American political landscape for decades.

Robert Kuttner, for one, maintains that "America's military leadership, its relentless promotion of *laissez-faire*, and the costs to its own economy..." should all be linked together when attempting to assess the true costs of the Cold

element of US national security policy, *not* as its driving force.

⁴⁴Robert Kuttner, The End of Laissez-Faire: National Purpose and the Global Economy After the Cold War (New York: Alfred A. Knopf, 1991), 8.

⁴⁵This litany of woes does not reflect the even greater costs represented by the one hundred-thousand or more American soldiers who have died on foreign battlefields fighting "communism."

War.⁴⁶ He makes an interesting observation about earlier attempts to shift the emphasis of security away from overwhelming reliance upon military defense. Kuttner writes:

The idea that the United States should revise its conception of national security to emphasize geoeconomics rather than geopolitics had a certain logic, but it was very difficult case to make in domestic politics. For even if the American economy was admittedly deteriorating, the high politics of Cold War remained paramount so long as Soviet policy seemed to threaten Western Europe, or peripheral areas of the world, or the nuclear balance. Moreover, the central role of the United States as propagator of the faith in liberal commerce made it awkward to commend economic nationalism as the policy of choice for the United States itself. As a result, politicians who favored any form of planning, or industrial policy, or "conversion" from military to commercial prowess, or a new emphasis on economic renewal, were dismissed, not as proponents of a dissenting school of political economy but as jingoists, simple protectionists, and geopolitical naifs.⁴⁷

The crux of the problem has been that military power does not come cheap, and throughout the last forty-some years, the American geopolitical paradigm has focused heavily on military strength as the primary means of confronting perceived threats to US security. This focus was adopted early in the Cold War, as implementation of NSC-68 switched the emphasis of "containment" from George Kennan's broad-based approach (encompassing political, economic, psychological, and military means) to one centered more tightly on creating just the military response perceived necessary to combat Soviet imperialism. As NSC-68

⁴⁶ Ibid., 8.

⁴⁷ Ibid., 8-9.

unequivocally stated: "Without superior aggregate military strength, in being and readily mobilized, a policy of 'containment'...is no more than a policy of bluff."⁴⁸ It was a clear call for dramatically increasing the size of the American armed forces, but, significantly, it "...contained no estimate of what these forces would cost or how long they would be used."⁴⁹

But, while the Korean War ensured the adoption of this new policy, and temporarily muted many of the arguments about the eventual cost of such a build-up, many prominent Americans began warning early on of the tremendous social costs to be borne because of this military expansion. NSC-68 had "...included a sophisticated rationale for increased defense spending based on Keynesian notions of an expanding economy,"⁵⁰ but it still did not give a true notion of what the opportunity costs of maintaining a Cold War defense would be

⁴⁸Gaddis, Strategies of Containment, 99.

⁴⁹Ibid., 99. As Gaddis says on the same page, "imprecision, its drafters believed, was necessary to gain action: debates over budget allocations and force deployments could only delay clearance of the document, especially in the pentagon, where inter-service disputes over these issues had become both bitter and public." See too in Nitze, From Hiroshima to Glasnost, p. 96, where Nitze comments that "Truman was properly cautious about the budgetary implications of NSC 68....My personal estimate was that the buildup recommended in the report would probably require annual appropriations of around forty billion dollars for the next four or five years. But the report itself contained no money figures."

⁵⁰William H. Becker, "Containment and the National Economy," in Terry L. Deibel and John Lewis Gaddis, eds., Containment: Concept and Policy, Vol. 1, (Washington, D.C.: National Defense University Press, 1986), 138.

for the nation. Dwight Eisenhower, in an address to the American Society for Newspaper Editors in 1953, expressed his deep concern about the social costs to American society of engaging in a spiraling arms race with the Soviet Union. His words eloquently expressed in concrete terms which many Americans could understand, the true cost of the Cold War. As Eisenhower put it:

Every gun that is made, every warship launched, every rocket fired signifies in the final sense, a theft from those who hunger and are not fed, those who are cold and are not clothed.

The world in arms is not spending money alone. It is spending the sweat of its labors, the genius of its scientists, the hopes of its children.

The cost of one modern bomber is this: a modern brick school for more than 30 cities.

It is two electric plants, each serving a town of 60,000 population.

It is two fine, fully equipped hospitals.

It is some 50 miles of concrete highway.

We pay for a single plane with half millions bushels of wheat.

We pay for a single destroyer with new homes that could have housed more than 8,000 people.

That is not a way of life at all in any true sense.⁵¹

But it was an evil that even Eisenhower recognized as necessary, for he too "...anticipated a long term competitive relationship with the Soviet Union....," with this competition occurring primarily in the military sphere, as American policy-makers emphasized the strategic imperatives of the

⁵¹Seyom Brown, Faces of Power: Constancy and Change in United States Foreign Policy From Truman to Johnson (New York: Columbia University Press, 1968), 90.

escalating arms race.⁵² American policy-makers routinely relegated to a lower level of concern the equally important economic competition between the two superpowers, and the macroeconomic aspect of the US-Soviet confrontation was usually seen in simple terms of either denying the Soviets economic opportunity at home, or in denying them opportunities for mischief abroad. Denying them economic opportunity at home simply required the establishment of barriers to trade, economic assistance, and technology transfer to the Soviet Union and its satellites,⁵³ actions which cost the United States relatively little. Denying them opportunities for mischief abroad, however, was another matter, because this seemed to demand that the United States grant its "allied" competitors within the world marketplace significant and extended economic concessions in order to ensure that their economies prospered.⁵⁴

⁵²John Lewis Gaddis, "The Evolution of U.S. Policy Goals Toward the USSR in the Postwar Era," in Seweryn Bialer and Michael Mandelbaum, eds. Gorbachev's Russia and American Foreign Policy (Boulder: Westview Press, 1988), 326-327.

⁵³For instance, denial of membership in the GATT and non-participation in world financial organizations like the World Bank and the IMF. Technology and trade were also restricted through the establishment of COCOM.

⁵⁴This policy provided strategic benefits to the United States that far outweighed its economic costs *at the time*, for in the broader geopolitical sense, encouraging the economic growth of American allies enabled the United States to promote its values abroad and enhance its national security at the same time. For instance, see in John Lewis Gaddis, "Toward The Post-Cold War World," Foreign Affairs 70, (Spring

Lawrence Krause, in his recent analysis of American economic leadership during the Cold War, has written that the United States--as the recognized hegemon in the capitalist camp--essentially wrote the rules for Free World Trade, and, while doing so, consciously promoted a liberal economic order designed to build a bulwark of prosperity against the threat of communism. He observes that:

While the United States prospered during the postwar period, other countries benefitted even more from the stability and openness of the system. It was the United States that shouldered a disproportionate share of the defence burden. It was the United States that had the most open markets. The United States exercised no control over the outflow of private capital, and it gave generous amounts of foreign aid. Even when political necessity forced the United States to take protectionist trade actions, its preferred instrument was the voluntary export restraint (VER) which gives windfall gains to foreign producers at the expense of the American consumer. It was willing to do all this because the benefits went to other countries within the capitalist camp. Hence, even if there was some economic cost, there was an offsetting security gain by strengthening Allied countries.⁵⁵

Selig Harrison and Clyde Prestowitz have questioned whether or not this Cold War economic policy was unavoidable given its geopolitical context. Their answer is deliberately

1991), p. 105, where Gaddis states that "the prosperity associated with market economics tends to encourage the growth of liberal democracies; and one of the few patterns that holds up throughout modern history is that liberal democracies do not go to war with one another."

⁵⁵Lawrence Krause, "Trade policy in the 1990s I: good-bye bipolarity, hello regions," The World Today 46, (May 1990): 83. Krause goes on to say that "the end of the Cold War has dissolved the glue that was holding the system together. The United States is no longer willing--and probably no longer capable--of playing the role of the benevolent hegemon."

vague as they hand off to history the responsibility for determining the ultimate verdict. They have commented about some of the economic effects of the that policy though, and they maintain, for example, that:

The continuing shift of economic power to East Asian competitors [like Japan] has been due in significant measure to the single-minded American focus on security concerns in the Asia-Pacific region. Since the Truman administration, successive presidents have subordinated U.S. economic interests to perceived geopolitical requirements. As the price for their military and diplomatic cooperation, the United States has actively promoted the economic power of its East Asian allies. *Critical American technology and industrial know-how have been repeatedly transferred at little or no cost* [italics mine]. At the same time, Washington has accepted trade and investment relationships based on an implicit understanding that U.S. markets would be relatively open while those of its partners would be much more restrictive. Whenever this asymmetry has caused economic disputes to reach a crisis the United States has generally avoided pressing the issue to conclusion.⁵⁶

The burden of exerting this type of economic leadership may prove to have been too costly. In order to redress some of the harmful economic imbalances which have cropped up because of this Cold War leadership, the United States must begin to reframe its national security policy to reflect the changing

⁵⁶Selig S. Harrison and Clyde V. Prestowitz, Jr., "Pacific Agenda: Defense Or Economics?," Foreign Policy 79, (Summer 1990): 57. See too in C. Fred Bergsten, "The World Economy After the Cold War," Foreign Affairs 69, (Summer 1990), p. 98, where Bergsten writes that "throughout the post-war period, the overriding security imperative blunted trans-Atlantic and trans-Pacific economic disputes. The United States and its allies...made economic concessions to avoid jeopardizing their global security structures. Cold War politics in fact sheltered the economic recoveries of Europe and Japan, and America's support for them. The United States seldom employed its security leverage directly in pursuit of its economic goals..."

balance between its current economic resources and its newly defined geopolitical/economic goals.⁵⁷ The dangers posed by America's economic competitors must be recognized and confronted, and the old emphasis on a military-oriented security policy directed primarily against the Soviet Union must give way to new military and economic realities. American geopolitical emphasis must shift towards increased competitiveness within the economic realm because that is where the future battles will be fought.⁵⁸

This then is the real challenge the United States now faces, for as America marches forward into the new realities of the post-Cold War era, it finds its economy--a critical component of its geopolitical power--faltering and under

⁵⁷See in C. Michael Aho and Bruce Stokes, "The Year The World Economy Turned," Foreign Affairs 70, (America And The World 1990/91): 177, where Aho and Stokes make the proposal that "as economics supplants defense as the foundation of national security, Washington must give new priority to international economic policymaking. The economic arm of the National Security Council needs to be strengthened. Responsibility for coordinating international economic policy, now scattered throughout the executive branch, should be centralized in the White House."

⁵⁸This is something the Japanese have understood all along. For instance, the United States perceived Japanese economic assistance to Southeast Asia during the post-war period as helping to support peace and stability in a region not only threatened by communism, but one which was crucial to the economic recovery of Japan. Japan's economic recovery was seen by the US as a critical factor in making that country a strong anti-communist bastion in Asia. The Japanese, however, took an entirely different view of the Cold War in Southeast Asia and never openly acknowledged the strategic implications of their aid policy. See in Dennis T. Yasutomo, "Why Aid? Japan As An "Aid Great Power"," Pacific Affairs 62, (Winter 1989-90): 492, where Yasutomo writes that "it is clear that [for the Japanese] *commercial objectives* overwhelmingly overshadowed diplomatic and political-strategic goals during this period." [italics mine]

siege. Theodore C. Sorensen's recent article in Foreign Affairs speaks specifically to this concern when he writes:

The once powerful beacon of this nation's economic strength, particularly in relative terms--relative not only to an economically ascendant Japan, a newly united Germany and Western Europe and other nations in general, but relative as well to the worldwide ranking we once enjoyed and could enjoy again--no longer shines so brightly in the global marketplace of today. We have the world's largest trade deficit. We are losing our competitive position, our market share in both domestic and export markets, in one after another of the industries in which our leadership was once vaunted...We have become--thanks to our trade deficit and enormous foreign borrowing required in light of our low savings rate and large federal budget deficits--the world's largest debtor...if these trends of deficit, debt and relative decline are permitted to persist and harden into fixed patterns, this nation's economic effectiveness and independence--meaning the flexibility to make decisions and the ability to fend for oneself, which are indispensable parts of any country's national security--would indeed be endangered.⁵⁹

C. Michael Aho has observed that "throughout the postwar period, the United States was accustomed to being master of its own economic fate. As the world's predominant economic power, America had the authority to mobilize other industrialized economies in time of crisis and to act unilaterally if necessary to protect its interests."⁶⁰ This unilateral action is no longer possible because Europe and Japan are now equally important economic entities within a new multipolar economic world--a world which no longer slavishly revolves around the

⁵⁹Theodore C. Sorensen, "Rethinking National Security," Foreign Affairs 69, (Summer 1990): 8.

⁶⁰C. Michael Aho and Bruce Stokes "The Year the World Economy Turned," Foreign Affairs 70, 160.

United States or its currency.⁶¹ The US must come to understand that its overwhelming economic preeminence after World War II was an anomaly of history, and that the US share of the world market was bound to decrease significantly as the industries of other nations recovered from their wartime damage and began to compete directly with the US; but, this does not mean that the US must accept an ever decreasing share of the world marketplace. In order to change recent economic trends, the United States must first carefully develop, and then pursue a new economic agenda which will allow it to regain its competitiveness within world markets, and thus maintain the technological edge necessary for continued economic growth.

Considering the health of the economy as a critical component of national security is certainly not new thinking, but considering it as the *key* component may be. Consider this important point. In the end, it really wasn't the Strategic Defense Initiative or stealth bombers which forced the Soviets to their knees: it was, instead, the massive failure of their economy. It turned out to be economics which really determined

⁶¹See in Aho and Stokes, "The Year The World Economy Turned," where the authors give an example of this hobbling of economic independence. They write that "previously autonomous decisions on domestic economic policy [have become] hostage to international developments. It was no coincidence that President Bush's decision in the summer of 1990 to reverse his 'no new taxes' pledge came only days before completion of the Structural Impediments Initiative talks with Japan, in which the United States was obligated to demonstrate a willingness to reduce its budget deficit."

the outcome of the Cold War, for over the longer term, military strength is primarily determined by productive and revenue-raising capacities: it is national *wealth* which is the real underpinning of military power. The Soviets are just now beginning to learn the painful historical lesson outlined by Paul Kennedy, that if "...too large a proportion of the state's resources [are] devoted from wealth creation and allocated instead to military purposes, then that is likely to lead to a weakening of national power over the longer term."⁶²

This may prove to be an equally important lesson for the United States, for the economic cost of its triumph over Communism was considerable and the debt is yet to be fully paid.⁶³ Kennedy's argument that an "...uneven pace of economic growth has...crucial long-term impacts upon relative military power and strategical position of [nations]," has proven to be tellingly accurate.⁶⁴ The collapse of the Soviet threat has been due primarily to the failure of its centrally-planned economic system; the Soviets, quite simply, were unable to compete with good "old-fashioned" American capitalism. The

⁶²Paul Kennedy, The Rise And Fall of the Great Powers (New York: Random House, 1987), xvi.

⁶³During the last decade, the United States' aggregate budget deficit totalled a staggering \$1.7 trillion.

⁶⁴*Ibid.*, xv-xvi.

Cold War ended, not with a military bang, but rather with an economic whimper.

This economic defeat of the Soviet Union has ushered in a new era. Charles William Maynes, the editor of Foreign Policy, has recently commented to that fact when he stated that "in one fundamental respect the new world that is unfolding contrasts very sharply with comparable periods of major historical transition. Unlike those earlier periods, no major new military threat is likely to replace the old one anytime soon."⁶⁵ Maynes is probably correct in his contention that there will be no major new *military* threat to engage the energies of the United States, but, as Theodore Sorensen has pointed out in very clear terms above, there is already most certainly an *economic* one.

C. CHANGING PERCEPTIONS OF THE JAPANESE ECONOMY: THE SHIFT FROM COLD WAR ALLY TO UNFAIR COMPETITOR

The September 1945 policy document, "U.S. Initial Post-Surrender Policy for Japan," clearly outlined the American purposes of the occupation as including "...the disarmament and demilitarization of Japan, the punishment of war crimi-

⁶⁵Charles William Maynes, "America without the Cold War," Foreign Policy 78, (Spring 1990): 3-4. See also in John Lewis Gaddis, "Toward The Post-Cold War World," Foreign Policy 70, (Spring 1991): 102, where Gaddis says that "for the first time in over half a century, no single great power, or coalition of powers, poses a 'clear and present danger' to the national security of the United States."

nals, encouragement of individual liberties and democratic processes, the direction of industry toward a peaceful economy, and the payment of agreed reparations in kind."⁶⁶ John Lewis Gaddis observes, however, that "American occupation authorities...initially emphasized the punishment of [their] former adversaries."⁶⁷ This was done through such instruments as SCAPIN (SCAP Instruction) 550, which was part of General MacArthur's attempt to demilitarize Japan by the "elimination of leaders of the militarists and the military" through the "Removal and Exclusion" list, and the SCAP-sponsored Deconcentration Law, pushed through the Japanese Diet in 1947, which was the high point of the American efforts to breakup the powerful pre-war zaibatsu.⁶⁸

By 1948 though, this emphasis on punishment began to change, as it became increasingly apparent to the Truman administration that the Soviet Union was not only engaged in a brutal and systematic "colonization" of Eastern Europe, but that it also was attempting to extend its pernicious influence into other countries along the "periphery," like Greece and Turkey. The growing fear was that this type of communist

⁶⁶Dean Acheson, Present At The Creation: My Years in the State Department (New York: W.W. Norton & Company, Inc., 1969), 427.

⁶⁷Gaddis, Strategies of Containment, 38.

⁶⁸George Friedman and Meredith Lebard, The Coming War With Japan (New York: St. Martin's Press, 1991), 101-105.

penetration could also destabilize Japan if Occupation efforts to punish the Japanese continued to take precedence over the revitalization of their economy. Curiously enough, "even the Communists [had been] encouraged in the very early days of the occupation" to participate freely in the revamped Japanese political system,⁶⁹ and the "...liberalisation of the labour laws had worked greatly to the advantage of the Japanese Communist Party; to conservatives in Japan and America, the Communists seemed to be everywhere [in 1947]--marching, speaking, publicising, making the most of their new-found democratic rights."⁷⁰ This encouragement rapidly ceased as anti-communism started to become the driving force behind American policy worldwide. These growing fears of Japanese communism, which accelerated after 1947, were reflected by the American perception that "the Soviet Union was...a superpower, unabashedly hostile to [the United States], operating all over the world through fifth columns of national communist parties."⁷¹

Meirion and Susie Harries have written that "with every turn of the screw in East/West tension the strategic impor-

⁶⁹Franz Schurmann, The Logic of World Power: An Inquiry into the Origins, Currents, and Contradictions of World Politics (New York: Pantheon Books, 1974), 145.

⁷⁰Meirion and Susie Harries, Sheathing The Sword: The Demilitarisation of Japan (New York: MacMillan Publishing Company, 1987), 187.

⁷¹Acheson, 359.

tance of Japan, poised on the frontier of the Communist world, increased," and the American fear was that "should the kind of technical expertise and industrial potential shown by Japan in the war years be combined with the limitless manpower and raw materials of the Asian mainland [through the potential creation of a communist bloc with China], the United States faced the menace of a truly formidable war-making complex."⁷² Some American strategists like George Kennan believed that the emerging Soviet threat warranted a dramatic change in the existing "punishment" policy towards Japan, and they advocated "...shifting the goal of Japanese occupation policy from control to rehabilitation, and delaying the signing of a peace treaty that would end the occupation until the basis for a stable, self-confident society had been established."⁷³ As Kennan himself expressed it (in terms very reminiscent of Sir Halford MacKinder): "Any world balance of power means first and foremost a balance on the Euroasian land mass. That balance is unthinkable as long as Germany and Japan remain power vacuums."⁷⁴ The ultimate result of this geopolitical

⁷²Meirion and Susie Harries, 190-191.

⁷³Gaddis, Strategies of Containment, 38-39.

⁷⁴Ibid., 39. Gaddis also writes that Kennan believed that what had to be done was "...to bring back the strength and the will of these peoples to a point where they could play their part in the Euroasian balance of power, and yet to a point not so advanced as to permit them again to threaten the interests of the maritime world of the West."

thinking was that the postwar concept of Japan being rebuilt as a peaceful, non-militarized, medium-sized economic entity was cast aside as containment of communism and the Soviet Union came to be the dominant focus of American policy-makers.

Kennan and other members of the Policy Planning Staff (PPS) of the State Department had begun to argue as early as 1947 that the main emphasis in Japanese occupation policy "...should lie in the achievement of maximum *stability* of Japanese society, in order that Japan may best be able to stand on her own feet when the protecting hand is withdrawn."⁷⁵ This was of intense concern, and was to have a major impact on US postwar policy towards Japan, for when faced with what seemed to be a very real communist threat to the nations of the Free World, especially those with hungry people and devastated economies, many American strategists came to believe that domestic stability in Japan (and Europe) could ultimately only be achieved through American efforts to help rebuild those shattered economies. As Dean Acheson points out in his memoirs, "not only do human beings and nations exist in narrow economic margins, but also human dignity, human freedom, and democratic institutions."⁷⁶ George Friedman and

⁷⁵Ibid., 42.

⁷⁶Acheson, 229.

Meredith Lebard note how this thinking changed Occupation policy towards Japan:

Prior to 1947, the main concerns of SCAP had been political and institutional: demilitarization and democratization. After 1947, a new imperative emerged: economic recovery, which had not been of primary concern in the first phase.⁷⁷

The beginnings of this new phase in Japanese occupation policy started with a January 1948 speech by Secretary of the Army Kenneth C. Royall, in which he stated that "we are building in Japan a self-sufficient democracy, strong enough and stable enough to support itself and at the same time to serve as a deterrent against any other totalitarian war threats which might hereafter arise in the Far East."⁷⁸ This declaration was followed up later that same year by a National Security Council (NSC) report (NSC-13/2) which recommended that "second only to U.S. security interests, economic recovery should be made the primary objective of United States policy in Japan for the coming period."⁷⁹ This policy recommendation suggested that in order to accomplish that objective, the United States needed to not only provide economic aid to Japan, but also "...cut away existing obstacles to the

⁷⁷Friedman and Lebard, 103.

⁷⁸Ibid., 106.

⁷⁹National Security Council, "NSC 13/2: Report by the National Security Council on Recommendations with Respect to United States Policy Towards Japan," dated 7 October 1948, FRUS 1948 Vol. VI (Washington, D.C.: US Government Printing Office, 1974), 858.

revival of Japanese foreign trade, with provision for Japanese merchant shipping and to facilitate restoration and development of Japanese exports."⁸⁰ Pushed by the fear that the Soviet Union would attempt to extend its influence into other areas of the Pacific (particularly Japan), the "turn around" in American occupation policy began in earnest.

The demilitarization of the Japanese society, along with American efforts to break up the pre-war zaibatsu, was rapidly suspended as the United States felt forced by the tensions of this new "Cold War" to both redefine Japan's postwar international role and undertake an urgent revival of Japanese industry. As Japan began to move center stage again in American geopolitical concerns, the US had to change its immediate postwar policy that the United States was "...not [to] assume any responsibility for the economic rehabilitation of Japan or the strengthening of the Japanese economy."⁸¹ This "reverse course," as the Japanese called it, was philosophically in line with the "containment" policy to be outlined later in NSC-68. While still in its earliest phases, the underlying American policy was becoming clear: Japan was *not* going to be allowed to fall into the Soviet camp.

⁸⁰NSC 13/2, 861.

⁸¹Department of State, "Basic Initial Post-Surrender Policy for Japan," dated 1 November 1945, Decade of American Foreign Policy, 1941-1949 (Washington, D.C.: U.S. Government Printing Office, 1985), 426.

To many Americans that danger seemed imminent in the following few years. After China was "lost" to the Free World in December 1949, Dean Acheson and others began expressing the constant American fear that if "Japan [was] added to the Communist bloc, the Soviets would acquire skilled manpower and industrial potential capable of significantly altering the balance of world power."⁸² Stopping the Soviet Union in the Pacific seemed to demand that economic cooperation between Japan and the United States become a top priority. The establishment of a security alliance with an economically strong Japan therefore became a critical element in an evolving US Pacific security strategy. The only real problem in this proposed strategy was the Japanese economy itself--it was in terrible shape with little prospect of getting any better. So, in order to bolster the viability of this alliance, the Americans concentrated on creating a strong Japanese economy which would not only provide a domestic environment conducive to the promotion of democratic values at home, but also one which would be capable of helping to develop the struggling economies of Southeast Asia--thus preventing communist encroachment in that region of the world as well.⁸³

⁸²Gaddis, Strategies of Containment, 77.

⁸³Meirion and Susie Harries point out on page 191 of Sheathing The Sword, that "America's aim was to integrate the economy of the South East Asian region with Japan as its industrial hub, and tie the whole firmly into the western economic and monetary system."

Japan, the United States had finally decided, was to assume a pivotal role in the American geopolitical strategy of checking the advance of communism in Asia. The first efforts towards the establishment of a "collective security" structure in East Asia began.

John Lewis Gaddis points out that during the early postwar years "...there were two ways to deny once hostile concentrations of industrial power to the Russians: one could negotiate their demilitarization and neutralization, or one could act unilaterally to bind them to the United States and its allies."⁸⁴ The US chose the latter course with Japan; and so, on the same day that the Treaty of Peace with Japan was signed in September 1951, the Japanese-American alliance formally came into being. The reason given in the Security Treaty itself was that "on the coming into force of that [Peace] Treaty, Japan will not have the effective means to exercise its inherent right of self-defense because it has been disarmed. There is danger to Japan in this situation because irresponsible militarism has not yet been driven from the world."⁸⁵ Earlier that same year, a NSC report (NSC 48/5) had outlined basic American aims in the alliance as developing a strong Japanese economy, strengthening Japanese military

⁸⁴Gaddis, Strategies of Containment, 77.

⁸⁵John M. Maki, Conflict and Tension in the Far East: Key Documents, 1894-1960 (Seattle: University of Washington Press, 1961), 219.

defenses, and establishing "...long-term relationships between the United States and Japan which will contribute to the security of the United States."⁸⁶

The American view of Japan had shifted dramatically from that of a defeated enemy to that of a Cold War ally in the course of just a few years. As NSC 48/5 obliquely stated, a "...Japan with a rapidly and soundly developing economy, internal political stability, and an adequate military capability for self-defense....," would serve American interests by providing a deterrent effect upon the Soviet Union in Asia.⁸⁷ Joseph Dodge summed up the American view of how this new relationship was to work in a report entitled United States-Japan Economic Cooperation in the Post-Treaty Period. This report stated that:

There will be substantial reliance on Japan in the post-treaty period for:

- a. Production of goods and services important to the United States and the economic stability of non-Communist Asia.
- b. Cooperation with the United States in the development of raw material resources of Asia.
- c. Production of low-cost military material in volume for use in Japan and non-Communist Asia.
- d. Development of Japan's appropriate military forces as a defensive shield and to permit the redeployment of United States forces.⁸⁸

⁸⁶National Security Council, "NSC 48/5: U.S. Objectives, Policies and Courses of Action in Asia," dated 17 May 1951, FRUS 1951, Vol. VI, part I (Washington, D.C.: US Government Printing Office, 1977), 84-85.

⁸⁷*Ibid.*, 54-55.

⁸⁸Friedman and Lebard, 125.

As George Friedman and Meredith Lebard point out:

The Dodge memorandum set the stage for Japan's growth over the next decades. The United States would provide political and military protection to Japan. Japan, in turn, would be an economic adjunct in this relationship, strengthening the economies of non-Communist Asia while supplying the U.S. with low-cost goods. Ultimately, the United States would be happy if Japan prospered, and would be doubly pleased if Japan's prosperity set off a boom in the rest of Asia.⁸⁹

It was a role that ultimately worked to Japan's advantage. Rebuilding the shattered Japanese economy under the American security umbrella enabled the Japanese to pursue what became known as the *Yoshida Doctrine*---a pragmatic policy that eschewed any military role whatsoever for Japan and emphasized maximization of economic profit through mercantile trade relationships. Prime Minister Yoshida "...was convinced that military growth would inevitably lead Japan to foreign involvements not in its interest, as well as to spending resources that could better be spent on economic activities,"⁹⁰ and he "...vigorously resisted calls for [Japan's] rearmament..." for he saw "...Japan surviving in the world primarily as an economic entity."⁹¹ This geopolitical outlook was expressed in many ways. Before signing the Mutual Defense Assistance Agreement of 1954, for instance, the Japanese

⁸⁹Ibid., 125.

⁹⁰Ibid., 123.

⁹¹Ibid., 116.

government successfully fought to have the following phrase incorporated into the preamble of that treaty:

In the planning of a defense assistance program for Japan, economic stability will be an essential element for consideration in the development of its defense capacities, and that Japan can contribute only to the extent permitted by its general economic condition and capacities.⁹²

Defending this position and using it to their own economic advantage was fairly easy for the Japanese, for if nothing else, Yoshida and other leaders could wield a powerful *legal* mechanism given to the Japanese by the Americans themselves-- Article 9 of the US-designed Japanese Constitution. Article 9 "...renounced war as a sovereign right of the nation," stipulating that "...land sea and air forces, as well as other war potential, will never be maintained."⁹³ It became a convenient constitutional 'escape clause,' a clause which allowed the *Japanese* to control the extent of their military participation in America's collective security plan. Article 9 essentially gave the Japanese the legal right to become classic 'free-riders' of American defense spending. The Japanese had decided to stake their future on economic growth protected by American military might, and any attempts by the Americans (starting with the Korean War) to have the Japanese play a substantial

⁹²Martin E. Weinstein, Japan's Postwar Defense Policy, 1947-1968 (New York: Columbia University Press, 1971), 75.

⁹³Kar-yiu Wong, "National Defense and Foreign Trade: The Sweet and Sour Relationship between the United States and Japan," in Sharing World Leadership?, 88.

military role in this collective defense effort met with little cooperation. The frustration of American officials was manifest, but they had been hoisted upon their own petard and their idealism blew up in their own faces. There was little that they could do about it, and as Friedman and Lebard remark:

It is ironic that this drive to rearm Japan occurred a scant two years after the Supreme Commander, Allied Powers had written Article 9 of the Japanese constitution. The United States had quickly lost interest in that clause. The Japanese had not.⁹⁴

At the time, this stance seemed irritating but of only marginal consequence, for the Japanese reluctance to spend money on defense didn't seem out of line with their current economic conditions. Japan was still a weak economy struggling to overcome the effects of the Second World War. The extent of its economic weakness during those early years can be put into some perspective when one realizes that Japan's GNP in 1952 was "...smaller than that of Malaya; it was only in 1959 that Japan's exports recovered their pre-war level; only in 1965 that it scored a trade surplus; and only in 1966 that it recovered its pre-war share of world exports (5 per cent)."⁹⁵ It was a long, difficult struggle, and one which lasted for almost two decades. In fact, it wasn't until 1955 that Japan

⁹⁴Friedman and Lebard, 116.

⁹⁵Endymion Wilkinson, Japan Versus The West: image and reality (London: Penguin Books, 1983), 168.

was even admitted to the General Agreement on Tariffs and Trade (GATT), and acknowledged as any sort of real economic player in the international marketplace.

Consequently, throughout the 1950s and into the 1960s, while the United States "...pursued geopolitical influence, Japan pursued exports and no contradiction was seen between the two activities."⁹⁶ Afterall, didn't the collective security agreement between the two nations implicitly encouraged this behavior on the part of the Japanese? While the Japanese *had* begun to challenge US industry in some areas by the mid-1960s, there seemed to be little concern during those years that any nation, much less Japan, would ever be able to successfully challenge the US economy; in fact, up until the mid-1960s, it was the United States which was seen as the unbeatable economic superpower.⁹⁷ In his best-selling book, The American Challenge, French journalist J.-J. Servan-Schreiber described prevailing European fears in 1967 that the United States would *continue* to expand its dominance of the

⁹⁶Ibid., 169.

⁹⁷See in Douglas Frantz and Catherine Collins, Selling Out: How we are letting Japan buy our land, our industries, our financial institutions, and our future (Chicago: Contemporary Books, 1989), p. 106, where the authors state that through that period "...Americans were secure in their economic and military power. The nation was unconcerned and even paternalistic toward the Japanese....When it came to international rivalry, American attention was focused on the Soviet Union and China. There was neither time nor inclination to be concerned about the economic power of the vanquished Japanese."

world economy. He wrote that "fifteen years from now it is quite possible that the world's third largest industrial power, just after the United States and Russia, will not be Europe, but *American industry in Europe*."⁹⁸ As far as Japan was concerned, Servan-Schreiber admitted that it "...will manage to keep up to the American level by concentrating their forces in special areas," but then added carefully that the Japanese "...will not be strong enough to deal with the U.S. as equals, nor will they be truly competitive."⁹⁹ This outlook towards Japan was prevalent in both Europe and the United States. Part of the reason why so many Americans (and Europeans) were shocked by Japan's sudden emergence as an economic power in the late-1960s, was that "...in the rubble of postwar Japan, the West somehow came to regard Japan as a developing country--an attitude that ignored the fact that by 1938 it was already one of the world's leading industrial and military powers."¹⁰⁰

⁹⁸J.-J. Servan-Schreiber, The American Challenge (New York: Atheneum, 1968), 3.

⁹⁹*Ibid.*, 103.

¹⁰⁰Clyde V. Prestowitz, Jr., Trading Places: How We Allowed Japan to Take the Lead (New York: Basic Books, Inc., 1988), 9. Prestowitz points out that "...in the 1930s, Japan dominated Asia's textile markets and was making such large inroads elsewhere that it was being condemned for unfair competition by Western countries that only eighty years before had demanded it enter into trade with them. At this time, its steel production was greater than France and Italy and nearly the same as Great Britain; and its industrial growth was faster than that of the United States."

Despite this national hubris, there were signs which should have alerted more Americans about the growing extent of this Japanese economic competition. There was, for instance, the new trend in US-Japanese trade relations, which began as early as 1965, when "...economic relations between Japan and the U.S. were reversed. For the first time, Japan exported more to the United States than it imported."¹⁰¹ But, because the overall American trade balance remained positive, this passed with little notice. There were some American analysts during the mid-1960s, however, who were predicting Japan's economic rise; Herman Kahn, the Hudson Institute's preeminent geopolitical thinker, had written as early as 1967 that Japan would become one of the world's first post-industrial societies, and his book in 1971, entitled The Emerging Japanese Superstate, expanded on that provocative theme, adding the contention that Japan also would become a major capital-exporter in the near future.

By 1969, Japan's rapid economic growth and increasing penetration into the American marketplace was becoming too great to ignore. As the American economy began to stagger under the twin burdens of declining productivity rates and inflationary pressures brought about by the Vietnam War, American policy-makers began to reexamine the US relationship

¹⁰¹Friedman and Lebard, 128.

with Japan. The Cold War was still being fought by the United States in the jungles of Vietnam, so the importance of Japan as an East Asian ally remained critical; but, while Japan was still viewed as a military ally, American criticism over Japan's failure to assume more of its own defense burden grew. Japan was seen increasingly criticized as a "free-rider," a nation which flourished economically under an American defense umbrella that the United States was finding increasingly difficult to afford.

The Nixon Doctrine, which was announced that same year, signalled a fundamental shift in American policy. It said that while the United States would continue to honor its treaty obligations and maintain the American nuclear umbrella, there would be no more direct US military involvements like Vietnam. The doctrine made it clear that "in cases involving other types of aggression, we shall furnish military and economic assistance...but we shall look to the nation directly threatened to assume the primary responsibility of providing the manpower for its defense."¹⁰² This change in emphasis resulted in renewed attempts by the US to reduce Japanese dependency

¹⁰²Gaddis, Strategies of Containment, 298. Gaddis points out on the same page that "Kissinger later further generalized the doctrine into an assertion 'that the United States will participate in the defense and development of allies and friends, but that America cannot--and will not--conceive *all* the plans, design *all* the programs, execute *all* the decisions and undertake *all* the defense of the free nations of the world.' The United States would give first priority to its own interests: 'Our interests must shape our commitments, rather than the other way around'."

on American defense; within the context of the Nixon Doctrine, the "U.S. urged Japan to build-up its [armed] forces" and to begin to assume more of the financial burden of its own defense.¹⁰³

It was becoming obvious by this time that the Japanese had derived major economic benefits from its dependent military relationship with the US, and it began to rankle American leaders that the Japanese continued to resist paying their fair share for their own defense. Americans were beginning to understand the costs of their hegemonic relationship with Japan, and the old assumption that Japanese economic growth was simply just a component of the much wider American plan to resist communist subversion in Asia began to fall apart. The Japanese had always had their own plans about economic expansion, and these plans didn't always coincide with American economic interests. It was clear now that Japanese economic might had progressed far beyond earlier American expectations, with implications for US economic interests far different than might have been expected just two decades earlier.

During this period, burgeoning trade disputes were continually papered over by the United States in favor of having the two nations maintain a united front against the

¹⁰³Ralph N. Clough, East Asia and U.S. Security (Washington, D.C.: The Brookings Institute, 1975), 3.

American-defined "mutual" enemy--communism and the Soviet Union. The US-Japanese security relationship, in the minds of many American policy-makers of the postwar era, was much too important to jeopardize by enagaging in acrimonious trade disputes; so, it has long been the policy of the United States to allow the Japanese to make significant inroads into the American marketplace, while, at the same time, accepting the notion that the Japanese market, for all practical purposes, would remain closed to American business.

It was a policy that offered the Japanese a curious freedom of action, because "Japan's extraordinary relationship with the USA entails significantly more than diplomatic help, mutual trade and promised military protection. It [is a policy which] has allowed Japan to deal with countries on the basis of purely economic priorities, with scant regard to political consequences."¹⁰⁴ It was also a policy stance readily recognized in Japan, and one of which they often took advantage. The growing US-Japanese trade imbalance showed that quite clearly, as it continued to grow throughout the 1970s and the early-1980s, eventually peaking at a US deficit of \$52 billion in 1987.¹⁰⁵ As Tomio Kubo so frankly said to Lee Iacocca in 1971, "we in Japan look out for our self-interest. What I

¹⁰⁴Karel van Wolferen, The Enigma of Japanese Power: People and Politics in a Stateless Nation (New York: Vintage Books, 1990), 41.

¹⁰⁵Keizai Koho Center, "Japan 1990," 38.

don't understand is why your country doesn't always do the same."¹⁰⁶ It was a question that many Americans were beginning to ask as well.

For many years, Japanese economic growth had been narrowly viewed as "...the heart of any collective effort to defend the Far East against aggression."¹⁰⁷ As such, the US had been willing to subsidize this economic growth by not only providing for Japan's defense, thus assuring "...Japanese security without the burden of massive [Japanese] defense expenditures," but also by giving the Japanese "...virtually unimpeded access to the largest market and the best technology in the world."¹⁰⁸ This benign view of Japanese growth began to shift, however, as Japanese imports started flooding the United States, causing large dislocations in important American industries like steel and automobiles. Persistent and growing trade deficits with Japan finally forced American policy-makers to recognize that Japan was "...continu[ing] to enjoy virtually unrestricted trade and investment opportunities in the United States while American trade and investment

¹⁰⁶Lee Iacocca with William Novak, Iacocca: An Autobiography (New York: Bantam Books, 1984), 331.

¹⁰⁷Dwight D. Eisenhower, "The Importance of Understanding," DOSB 40, no. 1035 (27 April 1959), 581.

¹⁰⁸Pat Choate, Agents of Influence (New York: Alfred A. Knopf, 1990), 67.

in Japan...[was] still subject to...many limitations."¹⁰⁹ This was an asymmetrical relationship which was now costing the United States more than it could afford to pay.

Despite President Nixon's efforts at correcting the trade imbalance by suspending the convertibility of the dollar into gold and imposing the 'Nixon shoku', the US-Japanese trade imbalance continued to grow. The economic consequences of this growing trade deficit were severe for many American industries. Overwhelmed by fierce Japanese competition, the American consumer electronics industry was practically extinct by the mid-1970s, and the United States "...had also been forced to protect its textile and steel industries."¹¹⁰ The automotive industry was being shaken badly by Japanese imports, with industry leaders like Lee Iacocca saying that "...in the name of free trade, we're sitting by and watching Japan systematically capture our industrial and technological base. By combining the skills and efficiencies of their culture with a host of unfair economic advantages, Japan appears capable of looting our markets with impunity."¹¹¹ It is a view increasingly shared by many rank-and-file Americans.

¹⁰⁹U. Alexis Johnson, "United States-Japanese Relations Today," DOSB LXI, no. 1585 (10 November 1969): 402.

¹¹⁰Prestowitz, Trading Places, 5.

¹¹¹Iacocca, Iacocca: An Autobiography, 343.

There were attempts to solve these persistent trade problems, but they were pursued in case-by-case bilateral negotiations which provided nothing more substantial than stop-gap measures designed to staunch the financial hemorrhaging of key American industries like steel and automobiles in order to give them the time to restructure and become competitive again. Part of the problem in negotiating with the Japanese about VERAs though, was that the US was caught upon the horns of a dilemma. It had preached the benefits of free trade ever since the end of the Second World War, but now it was suffering from the economic consequences of that policy, as many American consumers, exercising their rights under the capitalistic system, increasingly chose Japanese over American products. As Robert Kuttner attempts to explain:

It made pragmatic sense for America in the 1950s and 1960s to preach the freest possible markets, it made less sense in the 1980s and 1990s. Yet by 1980, as laissez-faire hardened from self-interest into dogma, the world was turning into one big marketplace, outrunning the macroeconomic policies of individual nations. During the 1950s and 1960s, the potential instabilities of a global market system were tempered by the reality that the economic power of the United States and the American dollar gave ballast to the world economy; a quarter of a century later, that was no longer true.¹¹²

This propensity for supporting free trade principles in the international marketplace has complicated US policy towards Japan, because even as Japanese economic power

¹¹²Kuttner, 6-7.

steadily increased, US policy-makers chose "...to believe that, at the right time, and under the right mix of internal and external pressures, Japan would gradually start managing its economic machine in a manner that the United States found more acceptable. It is a simple assumption, yet it has been the cornerstone of the U.S. [economic] stance towards Japan for decades."¹¹³ Because of this long-standing belief, the US has attempted to deal with Japan as though its market system could be changed to fit the American model; it is a policy which has been dead wrong, because "Japan, Korea, and other economically vigorous Asian nations use an explicitly developmental state," and they "...do not have free markets in the Western sense."¹¹⁴

Just how wrong can be seen in the large and persistent trade deficits that the United States has had with Japan despite decades of trade negotiations and Congressional pressure. For many observers, these immense trade deficits and the dismal American economic performance during the 1970s and early-1980s seemed to show that the United States and its once preeminent economy were in continuing decline, especially relative to that new economic juggernaut Japan. The signposts of the late-1980s seemed compelling: "Persistent trade and

¹¹³William J. Holstein, The Japanese Power Game: What It Means for America (New York: Charles Scribner's Sons, 1990), 243.

¹¹⁴Kuttner, 7.

budget deficits, the weak dollar and stock market turbulence, the emergence of Japan as the world's foremost financial power--all were seen as harbingers of a bleak future for the nation."¹¹

Even though competition from the newly-industrializing "Little Dragons" has been just as fierce as that posed by the Japanese in some of the most troubled US industries, many Americans continued to see the *Japanese* as the most threatening of their Asian competitors, primarily because Japan's spectacular ascendance in the world economy was so difficult to ignore. For years, the financial papers have been full of articles touting the "Japanese miracle," and for many average Americans, it is a miracle which has happened far too quickly for them to comfortably accept.

Japan has experienced some of the highest growth rates in the world during the last three decades, and it has seen its GNP continuously rise until today it's economy stands only behind the United States in overall economic power. It has been a sudden, unexpected rise as well, for as late as 1960, Japan's GNP "...was smaller than that of Britain, France or West Germany. By 1986, [however] the gross national product of that small island-nation exceeded that of Britain and France combined by over 30 percent, and [was] twice that of West

¹¹⁵Joel Kotkin and Yoriko Kishimoto, The Third Century: America's Resurgence in the Asian Era (New York: Ivy Books, 1988), xiii.

Germany."¹¹⁶ To many Americans, Japan was an economic freight-train that had roared past the European nations in a little over two decades and was now beginning to nudge the American locomotive that was racing to stay ahead. But, in some very important ways, it was already behind: in 1985, for instance, Japan became the world's largest creditor nation even as the United States became its largest debtor nation. To many, it was clear that the United States and Japan had begun "trading places."

Americans were perplexed about this sudden reversal of roles; Selig Harrison comments that Japanese and American perceptions of the postwar role that the United States had played in helping Japan achieve its economic success began to diverge significantly as that economic power increased. Harrison says that this was because:

As many Americans saw it, the United States showed rare benevolence in helping a defeated enemy to its feet, and the affluent Japan of the 1980s [and 1990s] should feel indebted for past assistance as well as for its continuing military ride "free ride." This view held that Japan could never have achieved its "economic miracle" without American loan capital and technical help, not to mention Japanese earnings from the Korean and Vietnam wars. In Japan, however, this concept of a "debt" was flatly rejected, since most Japanese believed that the United States rebuilt Japan for its own strategic reasons as an industrial bulwark against the Soviet Union and China. In Japanese eyes the postwar "miracle" was a natural outgrowth of the progress Japan had achieved on its own before the war. This progress was attributed to many of the same factors typically cited by foreign observers--a unified social structure unique in

¹¹⁶Ibid., 2.

Asia, a driving nationalism, and a disciplinarian work ethic. These were the all-important qualities that, to the Japanese, explained why they were able to make more effective use of the cold-war dollars flowing their way than most other Asian countries.¹¹⁷

The Japanese are correct when they state that the US rebuilt Japan for its own strategic reasons,¹¹⁸ but American perceptions of what constitutes its national interests in that region have begun to shift. While the United States is still fundamentally committed to collective security in Northeast Asia, there is a firm recognition that the US cannot continue to bear the brunt of the economic costs of maintaining military defense of that area; economic costs which are not only direct costs associated with the armed forces themselves, but the indirect economic opportunity costs exacted in the form of reduced financial and industrial competitiveness. For instance, Colin S. Gray writes that "there is resentment in the United States that the competitiveness of the Japanese economy is noticeably, even perhaps measureably, a function of

¹¹⁷Robert W. Barnett, Beyond War: Japan's Concept of Comprehensive National Security (Washington, D.C.: Pergamon-Brassey's International Defense Publishers, 1984), 47.

¹¹⁸See in Meirion and Susie Harries, Sheathing The Sword, p. 191, where the authors state that one reason was that, during the late-1940s, "the American economy was in increasing danger of stagnating through lack of overseas markets for the output of its immense industrial capacity. Other nations were for the most part in desperate financial straits, their economies in ruin, and were unable to earn, by exporting to America, the dollars with which to pay for the goods America needed to sell. There was in effect a 'dollar gap'; and Japan was a crucial component of America's strategy for bridging it in Asia...."

the modesty of the scale of Japan's diversion of high-technology talent to military purposes."¹¹⁹

Japan-basher Pat Choate comments rather cynically that it was actually the single-minded pursuit of profit under the Yoshida Doctrine that first "...assured Japanese security without the burden of massive defense expenditures," and then "...facilitated the accelerated rebuilding of Japanese industry."¹²⁰ He is not alone in that cynicism, for many American analysts have come to express their deep concern about how the Japanese have used this strategy to take economic advantage of its 'free-rider' status in the Western Alliance. Some thoughtful criticism is offered by Robert Kuttner, who writes that both:

West Germany and Japan had grown accustomed to the convenient dual role of geopolitical client and geoeconomic free rider. As economically productive nations with high savings rates and deliberately undervalued currencies, they enjoyed the best of all worlds: low real interest rates (which meant low capital costs for their industries) and export surpluses. Export surpluses meant that they could have steady growth and full employment, but without the high fiscal deficits that generate inflation and trigger high interest rates. They grew faster than everybody else, capturing the benefits of the global trading system while bearing few of its burdens. In effect, they were exporting their austerity to the rest of the world, while enjoying domestic prosperity.¹²¹

¹¹⁹Colin S. Gray, War, Peace, and Victory: Strategy and Statecraft for the Next Century (New York: Simon & Schuster, 1990), 269-70.

¹²⁰Choate, Agents of Influence, 67.

¹²¹Kuttner, 73.

Many Americans are now demanding that the United States change these economic relationships, and begin to deal with trading nations like Japan on the basis of what Clyde Prestowitz calls a "level playing field." But, however the United States eventually approaches its trade problems with Japan, it is clear that the era of sublimating the economic interests of the United States to the requirements of military defense is rapidly drawing to an close.¹²²

¹²²See in Harrison and Prestowitz, "Pacific Agenda: Defense Or Economics?," Foreign Policy 79, (Summer 1990): 57, where the authors write that "Soviet President Mikhail Gorbachev has now made it possible for Washington to put economic priorities first and to strengthen its [economic] leverage with the East Asian capitals hitherto regarded as indispensable pillars of U.S. security."

III. UNDERSTANDING THE NATURE AND EXTENT OF THE JAPANESE CHALLENGE

In April 1989, the late Senator John Heinz met with Yoshiro Kurisaka, the Policy Counsellor at the Keizai Koho Center in Japan, and took a predictably hard line regarding the US-Japan trade Imbalance. "Japan and America have different market systems," he told Kurisaka. "But that is no excuse for the trade imbalance. Under certain circumstances America could justifiably adopt protectionist measures."¹²³ These calls for protectionism are usually made by Americans in an attempt to leverage the Japanese into reducing their trade barriers and "opening up their domestic market" to American exports.¹²⁴ For many Americans, this seems to be a simple solution to the trade deficit. The thinking is that if American firms are allowed to compete in Japan on the same basis that Japanese firms compete in the United States, comparative advantage will carry the day and the trade deficit will disappear as a host of American products find a

¹²³Yoshiro Kurisaka, "High Time to Reform Backwards Politics," Japan Update No. 12, (Summer 1989): 1.

¹²⁴See in Donald C. Hellmann, "The Imperatives For Reciprocity and Symmetry," p. 256, where the author states that "protectionism is rarely defended on grounds of principle but is justified as a temporary expedient to rectify "unfair" practices abroad impeding the operation of a free market. Free trade is sanctified by the capitalist experience in America and finds intellectual sustenance in the neoclassical economic tradition that dominates in U.S. universities."

ready-made market in Japan. That thinking is also wrong. This macroeconomic approach to trade with Japan actually points out that many Americans do not understand either the *nature* or the *extent* of the Japanese economic challenge.

In his relentless crusade to make American policy-makers understand that the Japanese are pursuing a totally different economic agenda than the US, Clyde Prestowitz, Jr. has repeatedly stated that:

In lieu of a significant military establishment or policy, industrial policy aimed at achieving "economic security" has become Japan's national security strategy and its only assurance of some degree of independence of action on the international stage. As a result, Japan's industrial policies encompass broader concerns than merely those of economics. Japan's economic and strategic thinking is integrated. Economic policies are formulated with an eye not only to their contribution to Japan's material welfare, but also to their effect on Japan's power--not military, but of an overall political sort. Such policies are not conceived with short-term consumer welfare as the major objective, and cannot and will not always be in accord with the principles of free trade, which are based only on economic considerations.¹²⁵

Robert W. Barnett, in his summary of Japan's 1980 *Report on Comprehensive National Security*, points out that "Japan's central concern has always been the competitive effectiveness--even survival--of Japan's dynamic but vulnerable economy."¹²⁶ The tone of that report is very clear to an

¹²⁵Prestowitz, 149.

¹²⁶Barnett, 9. See too on page 32 where Barnett quotes Gregg Rubinstein, a US foreign service officer, as saying that "since the middle of the nineteenth century Japan had been obsessed by its vulnerabilities and by the necessity of surviving in an unfriendly world. The response to

American reader, and that is, that for the Japanese there is little distinction made between economic security and national security. Barnett's analysis lends firm support to Prestowitz's contention that the Japanese are primarily concerned with "*economic security*," when he points out that "among dangers that most alarm Tokyo are fear of losing access to overseas sources of food and energy...fear that Washington may be indifferent to Japan's need for vital imports and its need for access to American and other markets, fear of loss of acceptability as an active partner in the economic growth dynamic of Southeast Asia, fear of a breakdown of the international system, and fear of surges of great disorder anywhere."¹²⁷ These national fears are usually expressed in economic terms, even though in reality they encompass much more than simple balance-sheet worries. The Japanese version of "comprehensive national security" predicates economic interdependence as a precondition for national security; consequently, in Japanese eyes the "administration of a stable, growth-oriented, and reliably outward-looking/interdependent economic system is the

this obsession over the past century had been varied--from Meiji Japan's feverish modernization of state and society, to prewar Japan's search for security through military domination of East Asia, and then to the postwar emphasis on trade expansion and international economic cooperation. The need to survive, however, had been a constant challenge, and given sufficient incentive, the method of responding could change again."

¹²⁷Ibid., 8.

bedrock of Japan's own security...."¹²⁸ Stated in simpler terms, Japan prefers an international free trade system that essentially preserves the *status quo*--which means relatively open American markets for Japanese export goods without the requisite need for Japan to open its domestic market in any significant way.

The differences between the two countries' approaches to international trade during the postwar years are dramatic, for while the US committed itself to the establishment of a free and open international economic system, and pursued *laissez-faire* economics, Japan, which had been destitute at the end of the war, felt forced to embark upon a national effort to create "...an export economy sheltered behind a wall of protectionism and buoyed by a pattern of cooperation between government and industry that was designed to stimulate growth in jobs and gross national product (GNP) and to provide export earnings to finance imports of raw materials and food that the resource-starved island economy needed to survive."¹²⁹

Understanding the *reasons* behind Japan's autarkical approach to economic security, (particularly in sophisticated manufactured goods), is just as important as understanding the *mechanics* of that approach. So, before examining the structure

¹²⁸Ibid., 10.

¹²⁹Edson W. Spencer, "Japan as Competitor," Foreign Policy 78, (Spring 1990): 155.

of Japan's economic system, Americans first must be cognizant of the very important fact that Japan is, and always has been, a resource-poor country.¹³⁰ What that means in a practical sense is that the Japanese have little indigenous resources beyond the hard-working, highly-educated nature of the people themselves.¹³¹ Japan is heavily dependent upon its trading partners for a great portion of its food and fuel; in fact, fully one-third of Japan's food imports, as well as large amounts of industrial raw materials, come directly from the United States. In order to pay for these critical imports, the Japanese feel that they must *always* export more manufactured goods to the United States than Americans export back to them; consequently, even though exports have rarely amounted to more than 12 percent of Japan's GNP, the Japanese perceive this

¹³⁰See in George Friedman and Meredith Lebard, The Coming War With Japan (New York: St. Martin's Press, 1991), p. 163, where the authors write that "Japan's dependency on imports of minerals is enormous. Japan must import virtually all of its iron ore, copper, nickel, bauxite, manganese, molybdenum, titanium and, most important, all of its oil and liquid natural gas. Overall, it imports 99.6 percent of all its mineral ores, and 96.3 percent of all its mineral fuels--less than 99 percent only because Japan has some coal. Japan's food situation is only marginally better. It needs to import 85 percent of its wheat, 70 percent of its corn, 80 percent of its barley, and 97 percent of its oil seed."

¹³¹As Michael Porter points out in The Competitive Advantage of Nations, p. 395, that "with a long tradition of respect for education that borders on reverence, Japan possesses a large pool of literate, educated, and increasingly skilled human resources. Japanese are disciplined, hardworking, and willing to cooperate with the group."

percentage to be a crucial element of their national security.¹³² Etched on the consciousness of every Japanese is the central fact that Japan *must* export in order to feed its people and supply its industry.¹³³ This feeling of vulnerability is one of the reasons why the Japanese continue to oppose, for example, "...all efforts to open its US\$35 billion-a-year rice market," on the grounds that "...rice self-sufficiency is a non-economic issue."¹³⁴

The American vision of how the world's postwar economic system should work was outlined in large part in the Bretton Woods Agreement, which was an American effort to reshape the

¹³²This percentage is much lower than some other trading nations. While Japan's export percentage of 9.2% of nominal GNP in 1988 was about twice as large as that of the United States (at 4.7%), both these percentages were dwarfed by Germany's 24.3%.

¹³³See in Michael Porter, The Competitive Advantage of Nations, p. 399, for instance, where Porter writes that "at the broadest level, Japanese children are taught at an early age that Japan can only survive through kakō-bōeki, or exports based on imported materials. The concept of upgrading is implanted early." See too in Frantz and Collins, Selling Out, p. 21, where the authors quote Harvard Business School professor Thomas K. McCraw, who says: "Simply, there is no escape from the logic of Japan's physical setting: a very large population in a small and mostly barren land mass. Thus, whatever other national goals it might conceive for itself--a strong voice in world politics, wide recognition for its artists, honors for its athletes--Japan cannot, even for a moment, forget about its need to export."

¹³⁴Carl Goldstein, "The big casualty," Far Eastern Economic Review 149, (27 September 1990): 61. See too in James Fallows' More Like Us, page 9, where Fallows says: "I have interviewed urbane government officials about Japan's farm subsidy programs, asking why Japanese families should pay \$8.00 for a sack of Japanese-grown rice when they could buy a sack of equally good rice from Thailand or the United States for a dollar or two. The seemingly sincere response is usually 'What? And risk being starved out?'"

international economic system in the direction of free trade and market-oriented national economies. In addition, through the General Agreement on Trade and Tariffs (GATT), the US has continually championed liberal trade policies between nations in order to enhance general world prosperity.¹³⁵ The underlying problem is that Japan has continued to engage in managed trade (to an extent far beyond what is seen in other OECD countries), and has not signed on to certain other "informal" rules that US trade officials believe important to the smooth working of this integrated international economic system--the sovereignty of the consumer and the shareholder, for example, and tough anti-trust policies which place sharp curbs on corporate power. But, to say that Japanese trade practices are unfair though is simply incorrect, because, more precisely, they are just different. The word "unfair" somehow implies that the Japanese have been cheating on some mutually agreed

¹³⁵See in Prestowitz, Trading Places, p. 230, where Prestowitz writes that "Americans and Europeans who led the restructuring of the world economy after the war founded it on the doctrine of free trade, which was institutionalized in the General Agreement on Tariffs and Trade, the International Monetary fund (IMF), and the Organization for Economic Cooperation and Development (OECD). There the concepts of multilateral trade (trading within an overall multinational framework rather than on the basis of bilateral agreements), most-favored-nation and national treatment (giving the same treatment to both foreign and domestic companies) were enshrined. All of these agreements and structures were based on the competitive market and comparative advantage theories of the eighteenth- and nineteenth-century economists Adam Smith and David Ricardo and their later elaborators."

upon set of rules that govern the conduct of commerce, and that is simply not the case.

The reasons behind this fundamental misunderstanding lie hidden in the nature of the Japanese economic system itself, for the capitalist systems found in Japan and the United States differ sharply in their respective approaches to doing business. In contrasting the two systems, Yamamoto Shichihei has stated in The Spirit of Japanese Capitalism¹³⁶ that "in both countries the label on the outside says 'capitalist,' but when you open it up and look at the contents, they are very, very different."¹³⁷ This is a critical point for American policy-makers to understand, because "our intellectual conceptualization of the Japanese economic system undergirds

¹³⁶Nihon Shihonsugi no Seishin.

¹³⁷Frank Gibney, Miracle by Design: The Real Reasons Behind Japan's Economic Success (New York: Times Books, 1982), 7. See too in Hellmann, "The Imperatives For Reciprocity and Symmetry," p. 256-257, where Hellmann writes: "In Japan the liberal economic concepts of a competitive market, a small role for the government, and free trade have roots neither in the practices of the modern Japanese state nor in the schools of economics in the universities. Indeed, as [Chalmers] Johnson boldly states: 'The ideology of Japan's political economy can be located precisely in the line of descent from the German Historical School, sometimes labelled "economic nationalism" or neomercantilism.' Free trade and liberal economics do not have the emotional overlay they carry in the United States, nor do they implicitly guide the formulation of policy. In an interdependent world in which flexibility in managing foreign economic policy is peculiarly important, neomercantilist institutions and instincts give Japan enormous advantages."

policies toward Japan. If our picture is distorted, our policies will be, too."¹³⁸

A. THE DEVELOPMENT OF SAMURAI CAPITALISM: THE NATURE OF THE JAPANESE ECONOMY

On the face of it, the Japanese economy resembles the US economy, for it has had as its key objectives: low taxes, low interest rates, high savings, and capital formation. Economists in both countries generally agree that these economic objectives provide a business climate which is conducive to large-scale industrial expansion--the hard part, of course, is formulating the public policies that will generate these outcomes. The Japanese, it seems, have been much better at reaching those economic goals than the United States. The tax system in Japan, for instance, is generally less burdensome than in the United States. Commodity-taxes are low, capital gains taxes are virtually nonexistent, and the average income tax in Japan is around 16 percent, with only about 24 percent of total national income being taken by the government. (This contrasts very favorably with the 28 percent of national income taken by the American government, and the 40-50 percent

¹³⁸Alan S. Blinder, "There Are Capitalists, Then There Are The Japanese," Business Week 3181, (October 8, 1990): 21.

that tends to be gobbled up by the various European governments.)¹³⁹

The Japanese system is characterized more than anything else by its very high savings ratio: the Japanese save about 16 percent of their household income (as opposed to a very anemic five percent for Americans),¹⁴⁰ and this tremendous amount of national savings permits extensive business capitalization without the fear of significant inflation or high interest rates. Japan has taken supply-side economics and applied it in a classic manner: it accumulated massive amounts of capital through the world's most impressive savings program,¹⁴¹ and then used that capital for plant modernization and technological development. The profits realized from those endeavors then went to fund even more industrial expansion,

¹³⁹Peter Tasker, The Japanese: Portrait of a Nation (New York: Meridian, 1987), 44.

¹⁴⁰Daniel Burstein, in his book Yen!: Japan's New Financial Empire And Its Threat To America, estimates that "every single working day, Japanese individuals and corporations generate over a billion dollars worth of savings."

¹⁴¹Michael E. Porter, The Competitive Advantage of Nations (New York: Free Press, 1990), 396. Porter writes that historically "...the savings habit was partly cultural and partly a reflection of government policies, among them the absence of social security, a low housing stock which made the purchase of a home difficult for many, and impediments to placing capital abroad. To compensate for weak financial institutions [in the early postwar period], the Japanese government instituted a financial investment policy (zaisei-to-yushi) that involved encouraging savings and deploying it in priority fields. Individuals were given tax incentives to deposit savings in the postal savings system (yubin chokin), banks, and securities companies."

which in turn resulted in even larger market shares for Japanese companies and correspondingly greater sales. But, while this approach to economics would seem to reflect the US economy, appearances can be deceiving.

As Business Week columnist Alan S. Blinder and others have observed, "market capitalism, Japanese-style, departs so much from the conventional Western economic thought that it deserves to be considered a different system."¹⁴² This is perhaps at the crux of American misunderstandings of the so-called "Japan Problem," for few Americans understand that the Japanese have "...their own cultural, social, and political priorities [which] have led them to organize and run their econom[y] on the basis of principles different from those of the United States."¹⁴³ Expecting Japan to follow the American capitalist model, the United States is confused by what it sees in Japan--because a lot of the economic principles as practiced in Japan do not make sense in classical economic terms. As one MITI official so blithely put it: "We did the opposite of what American economists said. We violated all the normal concepts."¹⁴⁴ Consequently, understanding Japanese *samurai capitalism* may require a reexamination of some of the

¹⁴²Blinder, 21.

¹⁴³Harrison and Prestowitz, 60.

¹⁴⁴Ibid., 21.

basic tenets of traditional Western capitalism, for the Japanese "...have succeeded by doing everything wrong (according to standard economic theory)."¹⁴⁵ Among the most fundamental of these concepts is the underlying supposition in Western societies that greater *consumption* is the real purpose behind all economic activity. This concept that "...the economic system exists to serve the wants of consumers...." is rooted deeply in the classic writings of Adam Smith and David Ricardo,¹⁴⁶ and as "one of history's greatest ideas," the "essence of the invisible hand" in the marketplace has become the guiding light of Western economic thought.¹⁴⁷ According to traditional views of capitalism:

The doctrine of laissez-faire, as explicated in Adam Smith's *Wealth of Nations*, holds that market economies, when left alone, are essentially self-regulating. Sellers, left to their own devices, will produce goods and services in response to the demands of buyers. The interplay of supply and demand will generate the right signals, in the form of prices, of what ought to be produced. Correct prices will "clear the market," as in an auction. The unfettered operation of the price system leads to an optimal allocation of resources and the most efficient possible distribution of production, based on the logic of specialization, in which each producer gets to do what he does best. The resulting distribution of income and wealth is also efficient, and hence implicitly just.¹⁴⁸

¹⁴⁵Blinder, 21.

¹⁴⁶Ibid., 21.

¹⁴⁷Ibid., 21.

¹⁴⁸Kuttner, 4. Kuttner also points out that "...even Smith, however, recognized that government had a function in all this--in caring for the needy, in building public works, in education and public health, and in

Americans have embraced Adam Smith and free-trade wholeheartedly, and have concentrated on *consumption* as the main economic locomotive of their culture--with the American consumer as the engineer in control; the Japanese, meanwhile, have elected to focus instead almost exclusively on *production* and the *dominance of certain key industries* in order to reach national goals centered squarely on achieving "economic security." The Japanese, with their very successful emphasis on *production* instead of *consumption* seemed to have turned traditional Western economic theory on its head, because Japanese priorities put:

...producers, not consumers on the economic throne. Japanese businesses seek profits, to be sure, but not for their stockholders. They want them, instead, as the well-spring of growth, which they see as an integral part of nation-building.¹⁴⁹

It is clear from this fundamentally different perception alone that Japan's economic behavior is bound to be unlike that of the United States. This is not the only difference between the two systems, however, because another key difference is that while the United States has formulated a *de jure* adversarial relationship between government and business and management and labor, the Japanese, with their consensual cultural style, have striven to achieve *de facto* cooperation amongst all those

preventing merchants from conspiring against the public interest."

¹⁴⁹Blinder, 21.

groups.¹⁵⁰ Americans have traditionally viewed "...monopolies and cartels [as] economic pathologies. [They] are also wary of vertical integration, because captive suppliers or retailers may serve the interests of the dominant company rather than those of consumers."¹⁵¹ This wariness manifests itself in such legal restraints as the Sherman Anti-Trust Act, which essentially prohibits the creation of large industrial and financial monopolies. The Japanese have taken a totally different approach and have encouraged the growth of "...the keiretsu--the ultimate vertically integrated megacompany."¹⁵² This means that how business is conducted in Japan is much different than how its conducted in the United States, for:

When major Japanese manufacturers purchase components, they often do not seek out the lowest-cost provider. They look instead to their regular supplier, often part of their *keiretsu*. The same is true of financing and, in some

¹⁵⁰Leonard Silk, "Can U.S. Recover In Electronics?," The New York Times (May 4, 1990): C2. See where Silk writes about whether or not the US should adopt an industrial policy. In his analysis he quotes Canadian economist Sylvia Ostry, former chief economist of the Organization for Economic Cooperation and Development, as observing that the United States and Japan work on different models in their struggle for competitiveness: "The American model 'is strongly consumer and short-term oriented,' she said. 'Its strength is dynamism and flexibility.' Business interest groups generate an implicit "industrial policy" response from the Government in specific fields like military production and agriculture, while most industries insist Government leave them alone....By contrast, the Japanese model...is a "corporatist market economy," unique in its producer orientation, strategic use of cooperation and competition, and in the close and continuing interface of the state with business."

¹⁵¹Blinder, 21.

¹⁵²Ibid., 21.

cases, of retail outlets. To [the American] way of thinking, such restrictive practices lead to higher costs. To their way of thinking, long-term, reliable relationships cut costs, as business partners learn from and help one another.¹⁵³

This difference in thinking is significant because it carries over into the way Japan conducts its international trade as well. The United States has followed an economic policy which emphasizes customer satisfaction and individual choice in the marketplace--the general sense has been that the American consumer (and the country itself) benefits by buying from the lowest-cost producer of quality goods, regardless of country of manufacture. Indeed, classical thinking says that if "...other countries are stupid enough to subsidize their export industries, American consumers ought to welcome the gift."¹⁵⁴ Philosophically, that means that if certain American industries have to suffer because of their non-competitiveness, so be it. Practically, it is not quite that simple though, for as Robert Kuttner explains, "the prevailing ideology of economic liberalism has eschewed having industrial

¹⁵³Ibid., 21. See too in Fallows' More Like Us, page 40, where he points out that "...Japanese suppliers [of soda ash used in making glass], with their very high energy costs, are at an inherent disadvantage compared with American suppliers. Nonetheless, Japanese customers buy five sixths of their soda ash at home. An executive of Asahi Glass, a major purchaser, announced in 1986 that he would never leave his high-cost Japanese supplier. After all, they'd been friends in school. 'This isn't exactly collusion,' an American diplomat told me. 'It's just a refusal to act on price.'"

¹⁵⁴Kuttner, 11.

goals in the United States: in principle, it is none of the government's business where steel, or automobiles, or semiconductors, or VCRs, or civilian aircraft are produced; if production migrates abroad, this must be the market speaking, and if foreign industrial policies are the guiding, not invisible hand of global markets, this is deemed to make no significant difference. In practice, this makes America's industrial fate partly the captive of other nation's industrial strategies."¹⁵⁵

This means that large dislocations in American industry have often been the result of Japanese targeting rather than the competitive interplay of the free-market system. This has given rise to increasing trade frictions between the two countries because Japan takes a totally different approach to international trade than the United States. Jeffrey Garten, formerly on the staff of the White House Council on International Economic Policy, says that "Japan's main policy objective has been to protect its economy--access to raw materials abroad, access to foreign markets, and the nurturing of powerful conglomerates in industry and finance..."¹⁵⁶ This difference in approach contributes to what is generally perceived as

¹⁵⁵Ibid., 11.

¹⁵⁶Jeffrey E. Garten, "Japan and Germany: American Concerns," Foreign Affairs 68 (Winter 1989/90): 86.

the "Japan Problem." This "problem" exists because:

Not only does Japan export more than it imports, but its exports, in combination with its inhospitality to foreign products, undermine Western industries. The term 'adversarial trade' was coined by Peter Drucker to distinguish the Japanese method from competitive trade, in which a country imports manufactures of the same kind as it exports....With sectors such as consumer electronics and semiconductors--the bases for more specialized industries--being taken over almost completely by Japanese firms, Westerners have begun to fear they may suffer a gradual 'de-industrialization'. Once it has obtained the required technology, Japanese industry appears capable, with a concerted effort, of outcompeting and taking over from the original inventors and developers in any field.¹⁵⁷

This "concerted effort" is another factor which should not be underestimated in its importance to the success of the Japanese economy. The group-oriented structure of Japanese society allows the Japanese to achieve a fixation of purpose seldom achieved by Americans outside of wartime. Kanji Haitani claims that:

Japan's unsurpassed international competitive strength owes much to the group-oriented value system of Japanese society. The high productivity of Japanese workers, their hard work and cooperative attitude; the harmonious relationships between management and labor and between government and business; the long time horizon of Japanese managers, their marketing strategy with a focus on market share, product quality, and innovation--all of these strengths have been attributed to Japanese society's emphasis on the group and its "others-oriented motivation" system. The voluminous studies that have been published in recent years seldom fail to stress that the Japanese

¹⁵⁷van Wolferen, 2. van Wolferen writes that "West Germany's trade surpluses are also very large, but West Germany practices competitive trade, as does the USA."

ability to work as a group is at the heart of Japan's competitive strength.¹⁵⁸

This is important enough to explain at length, for Japan's "groupism" is a critical factor in understanding how and why the Japanese economy operates the way it does. Kanji Haitani outlines seven key dimensions of this Japanese variety of collectivism which should be examined:

1. The Japanese "...find identity and a sense of security through affiliation with a group--a family, school, corporation, or nation state. In smaller groups such as business corporations, the membership is diffuse, that is, involving the total personality as human beings. These groups are what the Japanese call *unmei kyodotai*--communities of shared destiny....Members of the group are aware that their well-being is maximized when their group prospers; hence they are willing to make sacrifices for the group.";
2. Within Japanese groups, a major characteristic is "...the hierarchial relationship among its members that is based on seniority. Within the same category of membership--for example, male managerial employees--in a small group such as a business firm or government office...there is a close correlation between the member's age (or year of entry) and their rank. This emphasis on the seniority of members is closely related to the Japanese belief that groups are organic communities...that exist and grow through time. By belonging to a small group, which belongs to successively larger groups that ultimately make up the family of Japan, each member of the group feels somehow linked to...the national family.";
3. "The third dimension...is its stress on the relationships of harmony and cooperation (*wa*). Members and the group are *isshin-dotai* (one mind, same body). Here, "one mind" does not mean unanimity of opinion in the Western, democratic sense. Rather, it means the absence of dissonance or discord that is achieved by senior

¹⁵⁸Kanji Haitani, "The Paradox of Japan's Groupism: Threat to Future Competitiveness?," Asian Survey 30, (March 1990): 237.

members taking the views of junior members seriously into account but, ultimately, by lower-level members internalizing and accomodating the wisdom of senior members. In general, the use of logic cannot be used to achieve *wa*.";

4. Also very characteristic of Japanese "groupism" is its "...exclusivism, or the insider-outsider mentality. Especially in a small group, Japanese form a closely knit, highly integrated organization in which members are particularistically related with a high emotive content and distinctions among individual members are blurred. A clear distinction is made between the insiders and the outsiders, the latter being treated by the former with indifference or even hostility....This fact makes it doubly important for Japanese to belong to some group and be embraced by it because the outside world is inhospitable.";
5. "The fifth key dimension is its rank and status consciousness, which is now well known and understood in the West. The rank consciousness translates into a keen sense of rivalry among individuals and groups for higher rank and status within a larger group. That this rank consciousness constitutes one of the key driving forces of the Japanese economy is also well known.";
6. Another major characteristic of this "groupism" has to do with "...its overall organizational structure, particularly in its macro dimension. Fundamentally, Japanese are averse to centralization of power. The whole society consists of a complex of overlapping hierarchies, at the top of which is a curious absence of a power center."; and
7. Lastly, "...the most important aspect of the Japanese view of the relationship between self and group, is their *Weltanschauung* or world outlook. Inasmuch as the Japanese are group oriented and that the largest group they can identify themselves with is their country, the national self-interest of Japan takes precedence over all other values.¹⁵⁹

¹⁵⁹Ibid., 238-240.

This concept of "groupism" helps to provide an answer to why Japanese workers are so fanatically loyal to their companies and work such long hours to ensure their firms' success, why Japanese subcontractors remain loyal to the large firms above them, refusing to sell to competitors even during difficult economic times when cash-flow is critical, and why large firms like Asahi Glass continue to buy more expensive pot ash from their regular Japanese supplier even when it is markedly more expensive than that offered by an American competitor. It also explains why it is so difficult for American firms to crack the Japanese marketplace, where the interconnecting networks of different groups makes it almost impossible for an outsider to break in. This cooperation within groups can be seen in the workings of the Japanese government itself:

Japanese government, in the broadest sense of the word, is the rule of politicians, bureaucrats, and industrialists, incorporating the opinions of interest groups, scholars, media people, and even opposition figures. Major decisions are taken only after all affected parties have been consulted and their opinions sought. This makes policy-making a slow business, but once a direction has been fixed, far-reaching measures can be implemented with little resistance.¹⁶⁰

Closely connected to this "groupism" is an overarching concept of racial homogeneity which provides the Japanese with a social cohesion and awareness of national identity which is

¹⁶⁰Tasker, 47.

unmatched in the United States. In fact, "being Japanese" is undoubtedly the single most important aspect of their lives. Both the politicians and business leaders alike, consciously promote nihonjinron (the theory of being "Japanese") with the result that there exists a strong sense of shared purpose among the Japanese people. This concept of nihonjinron provides "...a strong sense of comity and mutual obligation, a deference to hierarchy, as well as an insular sense of differentness."¹⁶¹ Robert Kuttner points out further that:

The idea is deeply rooted that the Japanese are unique and in many ways superior--yet vulnerable to undesired foreign influences. In an almost feudal way, deference within the hierarchy is balanced and reinforced by a reciprocal responsibility on the part of the superior toward the subordinate. Much in Japanese society, including its business practices, is built on long-term relationships, which is Japan's way of delivering comity and dealing with its sense of vulnerability. In contrast, relationships with foreigners, who are not part of the social contract, tend to be expedient and contingent. As it turns out, these cultural traits mesh beautifully with the strategies of the developmental state. And the successes of the developmental state, in turn, allow Japanese industry to fulfill its mutual obligations to a complex network of suppliers, customers, and employees.¹⁶²

This combination of social cohesion and shared purpose is among Japan's greatest strengths and translates directly into the success of Japanese industrial policy. A very important aspect of this success comes from the sanguine fact that the Japanese have no real fundamental disputes about their nation-

¹⁶¹Kuttner, 161.

¹⁶²Ibid., 161.

al economic priorities. Maximization of economic advantage is an objective with which nearly all Japanese agree. The economic framework of Japan is based primarily upon the overriding national priority of building an ever stronger industrial and commercial base, which makes for a more powerful and secure Japanese nation.¹⁶³ James Fallows makes the assertion that:

The operational realities of the Japanese political and economic system are distinctly different from those in North America and most of Western Europe. The Japanese system is more likely to sacrifice the consumer's welfare in order to strengthen its businesses. It encourages the very concentrations of economic power that American-style trustbusting and deregulation seek to break. When individual rights and collective well-being come into conflict, Japan is more likely to promote what it sees as the whole society's interests. The result of these and other traits, we contend, is a system whose goals and performance may not be accurately described by the Western model of democratic capitalism.¹⁶⁴

Robert Kuttner states that "although Japan is a fiercely capitalist country, it is not a market system in the same sense as the United States."¹⁶⁵ Alan Blinder writes that:

American capitalism rests on a grand theory begun by Adam Smith. There is no comparable theory of Japanese capitalism, but we need one if we are to formulate an intelligent economic policy toward Japan. The Japanese themselves

¹⁶³For instance, Japanese Prime Minister Yoshida (1948-1954) had emphasized throughout his term of office that *maximization of economic profit* was the real foundation of Japan's "economic diplomacy" (keizai gaiko), and many observers feel that this policy outlook has not changed significantly over the years.

¹⁶⁴James Fallows, Chalmers Johnson, Clyde Prestowitz and Karel van Wolferen, "Beyond Japan-bashing," U.S. News & World Report, (May 7, 1990): 55.

¹⁶⁵Kuttner, 161.

seem less concerned with conceptualizations than with results. So, we may have to produce that theory ourselves.¹⁶⁶

That is an undertaking fraught with problems of perception, for arguments about the nature of the "Japan Problem" usually pit "...orthodox macro-economists and the diplomatic establishment against structuralist economists and scholars of Japanese history and society."¹⁶⁷ The first group "...derives its notions about Japan from building models and making deductions," while the second group "...examines in detail how Japan actually works."¹⁶⁸ So, "if Japan is essentially [seen to be] a market society rather like ours, whose members merely happen to save more and work harder, the only 'Japan problem' is that we are not so diligent as they. If, on the other hand, Japan's system of strategic 'tribal bureaucratic capitalism,' as the writer Murray Sayle has called it, works well within Japan but turns predatory when applied to Japan's trading partners, then the 'Japan problem' is a severe one for the rest of the world."¹⁶⁹

Chalmers Johnson is of the second (and more persuasive) group. In his classic work, MITI and the Japanese Miracle,

¹⁶⁶Blinder, 21.

¹⁶⁷Kuttner, 164.

¹⁶⁸Ibid., 163.

¹⁶⁹Ibid., 164.

Johnson maintains that the Japanese have never really believed in Adam Smith, and that Japan is a "developmental state," which also "...can be located precisely in line of descent from the German Historical School--sometimes labeled economic nationalism, Handelspolitik, or neomercantilism."¹⁷⁰ As Johnson explains it, "in those states that were the first to industrialize, the state itself had little to do with the new forms of economic activity but towards the end of the nineteenth century the state took on *regulatory* functions in the interest of maintaining competition, consumer protection, and so forth," while "in states that were late to industrialize, the state itself led the industrialization drive, that is, it took on *developmental* functions."¹⁷¹ Johnson states that:

The United States is a good example of a state in which the regulatory orientation predominates, whereas Japan is a good example of a state in which the developmental orientation predominates. A regulatory, or market-rational, state concerns itself with the forms and procedures--the rules, if you will--of economic competition, but it does not concern itself with substantive matters. For example, the United States government has many regulations concerning the antitrust implications of the size of firms, but it does not concern itself with what industries ought to exist and what industries are no longer needed. The developmental, or plan-rational, state [like Japan], by contrast, has as its dominant feature precisely

¹⁷⁰Chalmers Johnson, MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975 (Stanford: Stanford University Press, 1982), 17.

¹⁷¹*Ibid.*, 19.

the setting of such substantive social and economic goals.¹⁷²

He continues with this further explanation of how the two systems work:

In a plan-rational state, the government will give greatest precedence to industrial policy, that is, to a concern with the structure of domestic industry and with promoting the structure that enhances the nation's international competitiveness. The very existence of an industrial policy implies a strategic, or goal-oriented, approach to the economy. On the other hand, the market-rational state usually will not even have an industrial policy (or, at any rate, will not recognize it as such). Instead, both its domestic and foreign policy, including its trade policy, will stress rules and reciprocal concessions (although perhaps influenced by some goals that are not industrially specific, goals such as price stability or full employment). Its trade policy will normally be subordinate to general foreign policy, being used more to cement political relationships than to obtain strictly economic advantages.¹⁷³

It can be argued pervasively that these descriptions closely fit the postwar economies of the United States and Japan; therefore, they can be used as a starting point for explaining why this different economic development translates into different forms of capitalism. The next step is to briefly look at "capitalist economic dynamics" as explained in the works of Joseph Schumpeter, an Austrian-born economist writing at Harvard in the 1940s, who postulated that:

Capitalism...is by nature a form or method of economic change and not only never is but never can be stationary. And this evolutionary character of the capitalist process

¹⁷²Ibid., 19.

¹⁷³Ibid., 19-20.

is not merely due to the fact that economic life goes on in a social and natural environment which changes and by its change alters the data of economic action; this fact is important and these changes (wars, revolutions and so on) often condition industrial change, but they are not its prime movers. Nor is this evolutionary character due to a quasi-automatic increase in population and capital or to the vagaries of monetary systems of which exactly the same thing holds true. The fundamental impulse that sets and keeps the capitalist engine in motion comes from new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates.¹⁷⁴

The Japanese, with their emphasis on the production of different and increasingly sophisticated consumer goods, the constant technological upgrading of their factors of production, and the hard-pressed battles for ever increasing market shares by large, dominant industrial/financial combines like the keiretsu, seem to find a philosophical home in the economics of Joseph Schumpeter, and are reflections of this "fundamental impulse" as constituted in Japan. An argument can be made as well, that Japan's extensive network of domestic protectionism has:

...stemmed [in part] from an emphasis on the importance of the internal market which came, in turn, from an implicitly...[Schumpeterian] view of the growth process--that the key to development and international competitiveness is economies of scale in manufacturing, particularly in a few large firms in each branch [of industry]. Trying to achieve such economies through export growth was too expensive and risky a strategy--it required a high initial level of subsidy, since Japan's industry was too weak to sustain world market competition, and it relied implicitly on the maintenance of high demand abroad and on

¹⁷⁴Joseph A. Schumpeter, Capitalism, Socialism, and Democracy 2nd ed., (New York: Harper & Brothers Publishers, 1950), 82-83.

the absence of foreign protective barriers, neither of which could be taken for granted in the 1950s. Hence the required scale economies had to be achieved first through domestic market growth, which would provide Japanese industry with sufficiently high levels of demand for the chosen few large firms to reach best-practice technology and internationally competitive cost levels.¹⁷⁵

This policy fits Schumpeter's theory that capitalism is an evolutionary process by which competition occurs around innovations by a few dominant firms. There are many examples of how fierce competition between competing keiretsu fosters significant industrial innovations and sparks rapid introduction of new product lines.¹⁷⁶

While this type of hardy competition helps to keep the "capitalist engine in motion," there is another key factor involved in Schumpeterian capitalism, and that is the idea of "creative destruction." Entrepreneurship, in Schumpeter's view, is a critical factor in this process of capitalistic evolution, for industrialized societies will change economically through the "creative destruction" of old industries paving the way for new ones. Schumpeter wrote that:

The opening of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as 'S. Steel illustrate the same process of industrial mutation--if I may use that biological term-

¹⁷⁵Andrea Boltho, "Was Japan's industrial policy successful?," Cambridge Journal of Economics 9, (1985): 190.

¹⁷⁶See in van Wolferen, page 397, for instance, where he points out that when a battle developed between Honda and Yamaha for the motor-cycle market in the early 1980s, it produced "...a proliferation of some ten to fifteen new models a month."

-incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism.¹⁷⁷

In examining this process of "creative destruction" in the Japanese economy, James Abegglen and George Stalk point out that:

This whole process is, of course, nothing more than economic growth. It is the kind of change that must take place if a people are to increase their productivity and thus their standard of living. This process of change is not unique to the Japanese economy, but what is unique in Japan is the speed with which these changes take place, and the ability of the Japanese company to deal with them continuously over a long period of time. This process of restructuring requires a continuing shift of the resources of the economy--capital and labor--out of relatively low-growth, low-technology, labor-intensive sectors, toward high-value-added, higher-technology sectors. The [Japanese] economy has moved on this course very steadily and rapidly, the process both a result and a cause of its ability to out-perform other economies in terms of real growth of output.¹⁷⁸

This essential fact of "creative destruction" fits the Japanese emphasis on intense competition between their keiretsu and the constant development of new technologies and industries to replace the old. In Japan, much more so than in most other countries, it can be seen that "...while whole industries are moving from central to declining positions as labor costs change, technology advances, competitors strengthen, and material costs change, so within any industry in

¹⁷⁷Schumpeter, 83.

¹⁷⁸James C. Abegglen and George Stalk, Jr., Kaisha, The Japanese Corporation (New York: Basic Books, Inc., 1985): 27-28.

Japan's dynamic economy there is a steady shift from the less sophisticated to more sophisticated products."¹⁷⁹

As Clyde Prestowitz explains: "In [Schumpeter's] theory, what matters is not price competition or resource endowment but the competition arising from new technology, new sources of supply, and new types of organization. Such dynamic competition can reverse a decisive cost or quality advantage by striking not at the margins of profit but at the foundations of the existing system."¹⁸⁰ With this in mind, Americans must begin to recognize that the two economic systems are fundamentally different, and that trade negotiations must always proceed from that basic truth. Americans should take heed of what French journalist J.-J. Servan-Schreiber said in his 1960s' classic, The American Challenge, when he wrote that:

The experience of Japan, while rather different, leads to a similar conclusion: economic growth can be adapted to social behavior and concepts of society far removed from the American model. Growth is compatible with a great variety of social institutions and individual behavior. "The power of Japan's example is not that it encourages us to imitate her society, but to accept a cultural relati-

¹⁷⁹Ibid., 27.

¹⁸⁰Prestowitz, 127-128. Prestowitz goes on to comment that "Schumpeter's concept of dynamic competition based on factors other than price suggests the possibility of catching up and the legitimacy of government intervention in order to do so. Although at odds with much of Western doctrine, this theory accords well with the samurai instinct of the Japanese who cannot accept that Japan remain behind in anything."

vism that allows each country to sink the roots of industrialization and economic progress into its own history." Varying balances can then be worked out between initiative and security, individual consumption and community development, private power and public power. A nation that is master of itself is free to stamp its own mark on society.¹⁸¹

B. GOVERNMENT AND BUSINESS IN JAPAN: MITI AND JAPANESE INDUSTRIAL POLICY

As a result of Japan's perception that industry is the critical component of their national security, the Japanese have developed an *industrial policy* designed to obtain for themselves as much industrial autonomy as possible. Through such key governmental organizations as the Industrial Structure Council of the Ministry of International Trade and Industry (MITI), the Telecommunications Advisory Council of the Ministry of Posts and Telecommunications, and other similar groups established to advise other ministries, the Japanese government has been instrumental in molding its economy into the highly successful entity it is today.

Government advisory councils have been tasked over the years with evaluating industrial performance throughout the Japanese economy, and then periodically producing *White Papers* which articulate *visions* for the future. There are many ways in which the Japanese government promotes and supports these

¹⁸¹Servan-Schreiber, 195.

visions: special depreciation rates, tax incentives, control over the establishment of industrial standards, a patent system designed to preclude foreign dominance of certain technology, and *guidance* to banking and financial institutions on preferred areas of loan activities. These tools have been used primarily to reduce financial risk for targeted growth industries and to increase their comparative advantage *vis-a-vis* foreign firms. In describing this interlocking structure of government and industry, Frank Gibney states that:

The [Japanese] government continues to sit at the controls of the whole operation, although it is, of course, constantly talked to and influenced by the huge trade associations and other business interests. When it is time for subsidies, they are forthcoming. When an industry needs protection, it is quietly helped and protected. Working through the Ministry of International Trade and Investment...the government assigns informal quotas, "suggests" useful mergers and extends needed financial support by tax benefits, helping with raw material imports, plant expansion credits, technical help, and other ways too numerous (and often too devious) to mention. *This finely calibrated support is one of the many secrets of Japan's successful export trade* [italics mine].¹⁸²

It has long been accepted (and resented) in the West that "Japan's recovery from World War II was managed by the Japanese state and conducted along highly mercantilist lines."¹⁸³ This process started right after the SCAP emphasis shifted from "...cultivation of a model democracy to the rapid

¹⁸²Frank Gibney, Japan: The Fragile Superpower (New York: Meridian, 1985): 168.

¹⁸³Kuttner, 161.

creation of a powerful economy."¹⁸⁴ When this shift took place, Japanese bureaucrats quickly began to use methods, which were little different from those used before the war, to strengthen their devastated economy--to this end, "foreign trade was strictly controlled....Resources were directed away from the consumer sector to strategic heavy industries....[and] a select group of internationally competitive companies were nurtured with subsidies and tax credits and supported by a plethora of low-wage, low-productivity suppliers."¹⁸⁵ The bureaucrats of the various ministries did not attempt to regulate the private sector through a multitude of laws. On the contrary, they seemed to prefer to keep legislation to a minimum. Their most effective tool was gyosei shido, or administrative guidance. Through this guidance they set goals for various sectors of the economy, identified growth industries and encouraged exports, controlled the money supply and inflation rate, and tried to divert twilight industries into other diversified fields.¹⁸⁶ It was a process which the Japanese already understood very well, and it succeeded spectacularly.

¹⁸⁴Tasker, 246.

¹⁸⁵Ibid., 246-247.

¹⁸⁶Frank Gibney, Miracle By Design: The Real Reasons Behind Japan's Economic Success (New York: Times Books, 1982), 136.

Many analysts maintain that this bureaucratic guidance of business has been an absolutely critical factor in the post-war resurgence of Japan's economy. As Japan moved from labor-intensive industries in the 1950s to capital-intensive industries in the 1960s and 1970s, and then finally into technological-intensive industries in the 1980s, the not-so-hidden hand of MITI has often been in evidence: textiles and other ailing industries were diversified and redirected after they had lost their comparative advantage; chemicals and some other heavy industries were aided and strengthened as energy prices rose after 1973; and, the growth of the automobile industry was charted and then heavily assisted through the encouragement of timely mergers.

Even before the Meiji Restoration in 1868, the Japanese had begun to outline a mercantilist plan for their country that would not have seemed out of place in the conference rooms of the Ministry of International Trade and Industry (MITI) during the 1990s. The remarks of Japanese scholar Honda Toshiaki (1744-1821) must have seemed strangely topical for those Japanese trade officials who read them over a 170 years later. His simple recommendation was that:

As part of a national policy, every effort should be made to promote in this country of articles that are of as fine manufacture as possible. If such efforts are made, individual industries will be encouraged, and attempts to improve the quality of Japanese products will follow. In that way many articles famed for their excellence will be

produced in this country. This will help us gain profit when trading with foreign nations.¹⁸⁷

It has been a policy taken to heart by Japanese leaders ever since the Meiji Restoration, and consequently, government promotion of Japanese industry has a long history. Chalmers Johnson, contends that "...modern Japan began in 1868 to be plan-rational and developmental," and as such, it "...had no ideological commitment to state ownership of the economy."¹⁸⁸ Japan, therefore, developed as "...its main criterion...the rational one of effectiveness in meeting the goals of development," and "...began to shift away from state entrepreneurship to collaboration with privately owned enterprises, favoring those enterprises which were capable of rapidly adopting new technologies and that were committed to the national goals of economic development and military strength."¹⁸⁹ That relationship in the prewar era "...took the form of close government ties to the zaibatsu (privately owned industrial empires)," which "...pioneered the commercialization of modern technologies in Japan, and ...achieved economies of scale in manufacturing and banking that were on par with those of the rest of the industrial world."¹⁹⁰ As Johnson comments about

¹⁸⁷Wilkinson, 159-160.

¹⁸⁸Johnson, 23.

¹⁸⁹Ibid., 23.

¹⁹⁰Ibid., 23.

the postwar period:

...the reforms of the occupation era helped modernize the zaibatsu enterprises, freeing them of their earlier family domination. They also increased the number of enterprises, promoted the development of the labor movement, and rectified the grievances of the farmers under the old order, but the system remained plan rational: given the need for economic recovery from the war and independence from foreign aid, it could not very well have been otherwise. Most of the ideas for economic growth came from the bureaucracy, and the business community reacted with an attitude of what one scholar has called "responsive dependence." The government did not normally give direct orders to businesses, but those businesses that listened to the signals coming from the government and then responded were favored with easy access to capital, tax breaks, and the approval of their plans to import foreign technology or establish joint ventures.¹⁹¹

Using these methods "...in the fifties and early sixties, when Japan's industrial infrastructure was being built up, the bureaucrats continued to play an all-important role in shaping the nation's economy."¹⁹² As Peter Tasker puts it, "the most influential ministries--such as Finance, Construction, and Trade and Industry--had power of life and death over the sectors under their control. They could virtually shut down an industry, as MITI did to coal, or expand or cartelize it by 'administrative guidance', a system of directives which were not legally binding but which no businessman in his right mind would consider disobeying."¹⁹³

¹⁹¹Ibid., 23-24.

¹⁹²Tasker, 247.

¹⁹³Ibid., 247.

Japanese officials, however, tend to deny that their government exerts that much control over their economy. They maintain that growth industries are not targeted for special consideration beyond what occurs in other countries, and, furthermore, they state that their domestic markets are not protected from foreign competition. The reason these officials continue to deny the overall importance of their industrial policy, and "...claim that Japanese economic policy plays only a supportive rather than an initiating role," is probably because any "...admission that industrial policy is important carries with it, at least in American eyes, an admission that Japanese business--government relationships are 'unfair' and, therefore, justify the imposition of protective measures."¹⁹⁴ This is undoubtedly a valid assumption, for many Americans firmly believe that MITI *has* been able to create "winners" in Japanese industry, and they have decried Japanese efforts to target US markets through government support of critical industries. Marie Anchordoguy, a professor at the University of Washington, gives an example of this type of government-sponsored targeting of growth industries:

...between 1961 and 1981 the government [of Japan] handed out some \$6 billion to computer makers. In other cases, like semiconductors, MITI leaned on competitors to send their best scientists to government labs where breakthrough research was being done. Heavy investment followed. By the late 1980s, most keiretsu ended up with a

¹⁹⁴Boltho, 187.

fully integrated electronics producer able to compete in global markets.¹⁹⁵

But, while most Japanese officials hedge on the actual effectiveness of their industrial policy, most do not deny that Japan has followed one, for as Nobuaki Takahashi, a research officer of the Japan Development Bank, has said, "if the nation's ultimate goal is to realize greater affluence in more people's lives, then any government policy must be a means of achieving that goal," and "the policy structure in Japan, centered around the strengthening of international industrial competition, which continued for forty years, was merely one means for attaining that end."¹⁹⁶

As part of that government policy, MITI was created in 1949 by combining the Ministry of Commerce and Industry and the Board of Trade, with the result that almost all major industries fell within its jurisdiction. MITI is notable for "...a variety of roles it plays--broad policy architect, ad hoc working-level problem solver, formal regulator, regional-policy arbiter, and informal administrative guide. In some industries, it has a strong statutory authority."¹⁹⁷ These

¹⁹⁵Carla Rapoport, "Why Japan Keeps On Winning," Fortune 124, (July 15, 1991): 84-85.

¹⁹⁶Nobuaki Takahashi, "Toward the Legacy of Industrial Policy," Japanese Economic Studies (Spring 1990): 50-51.

¹⁹⁷Ira C. Magaziner and Mark Patinkin, The Silent War: Inside the Global Business Battles Shaping America's Future (New York: Vintage Books, 1989), 358.

are all important aspects of how MITI directs industrial policy, but some analysts, like Andrea Boltho, declare that it was actually MITI's establishment of "an extensive network of protection," that established its primary methods of controlling the Japanese economy. She argues that:

Control of raw material imports gave MITI the power to cajole firms to move in desired directions. Control of technology imports allowed MITI to select the industries and processes it wanted to see develop. Control of manufactured imports, combined with selective exemption from import duties from foreign machinery and indirect tax systems geared to favor domestic purchases of certain products, meant that MITI could create hot-house conditions for the expansion of pre-determined sectors. Finally, control of inward investment, preserved the Japanese nature of these sectors by sheltering the under-capitalised Japanese firm from the danger of foreign take-over bids.¹⁹⁸

While many Japanese ministries have been involved in working towards those ends, it is "...MITI that has been most closely identified with Japan's post-war 'economic miracle'," and many Americans take a less than sanguine view of its policies.¹⁹⁹ They remember all too well how MITI, in the past, was able to enforce mergers within Japanese industry (in the interest of what it called economic rationality), and exert firm control over prices and domestic competition, while carefully diverting imported technology to the companies that best could use it--all of these being classic methods by which

¹⁹⁸Boltho, 190.

¹⁹⁹van Wolferen, 125.

Japanese industries were sharpened for penetration into targeted overseas markets.²⁰⁰ The ruthlessly efficient manner in which US industries seem to have been targeted by the Japanese, and then driven into the ground by fierce competition from Japanese firms, has scared a lot Americans, and it shows. There is "...voluminous literature [which] recounts how MITI pursued critical technologies, restricted imports, and propelled Japanese industry into the technologies it regarded as critical: steel and autos in the 1960s, consumer electronics and computers in the 1970s, an entire range of advanced technologies in the 1980s."²⁰¹

Many analysts point out, however, that "while in the 1950s and the 1960s the importance of...[MITI] in shaping the country's industrial structure was considerable, in the 1970s and early 1980s its role seemed to have declined."²⁰² But, while there may be some debate as to the amount of influence that MITI actually exerts upon the Japanese economy today, Americans are essentially correct in their assessment that "MITI is the most important institution in Japan's industrial policy-making process," and that industrial policy continues

²⁰⁰Tasker, 247.

²⁰¹Kuttner, 161.

²⁰²Boltho, 188.

to play a major role in Japan's strategic thinking.²⁰³ Prestowitz, points out that "in Japan's view, economic power and security go hand in hand. Industrial policies, which include those of ministries other than MITI, are also national security policies, and because Japan tends to define security in terms of remaining apart from the world, such policies are an expression of its age-old drive to guarantee to the maximum extent possible its autarkic position among the world's nations."²⁰⁴

When Japan's industrial policy is examined by Americans however, it is often overlooked that this policy engenders much more than simply promoting industrial competition abroad. Prestowitz says that "many American experts argue that, at best, the effect of Japanese industrial policy has been minimal," and that "...given its high savings rate, well-educated labor force, and relatively large population, [the experts] say, Japan would have achieved the same results with or without an industrial strategy or policy aimed at promoting key industries."²⁰⁵ He argues vigorously that this entirely misses the point, and supports that contention by stating:

That this view is very wide of the mark is evident from the fact that no Japanese hold it. The misperception is

²⁰³Magaziner and Patinkin, 358.

²⁰⁴Prestowitz, 125.

²⁰⁵Ibid., 125.

based on the assumption that everything begins with macroeconomic policy and that high savings and investment rates and educational levels arise from cultural bases. Industrial policy is seen as at best a bauble added to these basic conditions. But in fact, in Japan, industrial policy is the starting point. As the economist Hiroya Ueno has noted, the Japanese government has always intervened "to attain a specific economic order or economic structure viewed favorable to the national or public interest."²⁰⁶

It is a persuasive argument, and one which explains very directly the *real* impact of Japan's industrial policy, for that policy not only sought to promote competitiveness through the restructuring of a protected Japanese industry, it also attempted to shape and mold Japanese society itself, so that Japan's greatest resource--its people--could be harnessed in that effort. As James Fallows observes, "in the long run, a society's strength depends on the way ordinary people voluntarily behave," and "successful societies--those which progress economically and politically and can control the terms on which they deal with the outside world--succeed because they have found ways to match individual self-interest to the collective good."²⁰⁷ Fallows further states that "government policies make a difference in how any society develops--in the short run, the greatest difference," and that "...laws and government policies can heavily affect how people

²⁰⁶Ibid., 125-126.

²⁰⁷James Fallows, More Like Us: Making America Great Again (Boston: Houghton Mifflin Company, 1989), 13-14.

'choose' to behave."²⁰⁸ Nobuaki Takahashi supports that view, and points out that "in fact, many policies were developed for the purpose of nurturing and promoting the industries in Japan," and that among them:

These included the monetary policy, which strove to provide a stable supply of funds to the industries by encouraging the people to save; educational administration with an emphasis on the production of homogenous and high-quality technical workers through the creation of new universities and colleges and new college disciplines centered around engineering, expanding the capacity of the universities and colleges and the creation of new technical colleges; the public project policy, which gave preference to the building and improvement of highways useful for industries and of ports and harbors; farm policy to soften the discontent of the declining farming population in the process of shifting industrial structure in favor of secondary and tertiary industries and, as a result, promoting the movement of worker population to the manufacturing sector; and the Ministry of Finance's national budget making that was intended to attain the allocation of revenues and strengthen the taxation system aiming at the smooth overall progress of this policy.²⁰⁹

Prestowitz's point that the Japanese government's policies for enhancing industrial competitiveness are grounded in influencing the way the Japanese people themselves approach education, labor-productivity, and quality-control is a valid one. Michael Porter has pointed out, for example, that;

The process for creating capital was not the only impressive Japanese factor creation mechanism. More significant was the rapid and continual upgrading of human resources, which supported a growing sophistication of competitive positions. A first-rate primary and secondary educational system in Japan operates based on high standards and emphasizes math

²⁰⁸Ibid., 17.

²⁰⁹Takahashi, 37-38.

and science. Primary and secondary education is highly competitive, and family involvement, especially the mother's, in education is the highest of any nation I studied....While Americans often claim (with some justification) that a lack of creativity results from Japan's rigid system, Japanese education provides most students all over Japan with a sound foundation for later education and training. A Japanese high school graduate knows as much math as most American college graduates.²¹⁰

The results speak for themselves, for the Japanese have become an industrial and financial powerhouse through this shaping of their society.

²¹⁰Porter, The Competitive Advantage of Nations, 396-397.

C. THE STRUCTURE OF THE KEIRETSU AND THEIR KAISHA: THE
MECHANICS OF JAPANESE COMPETITION

There are many business analysts in the United States who believe that the "...keiretsu [enterprise groups] are critical to [Japan's] special brand of capitalism, the reason Japan keeps dominating world markets."²¹¹ Chalmers Johnson goes so far as to say that "the *keiretsu* are Japan's most important contribution to modern capitalism [a creation that distinguishes capitalism in the West from capitalism in Japan]."²¹² These keiretsu are huge business combines, with close interlocking links between finance and industry, financial links which would be highly illegal in the United States under its existing anti-trust laws. These "...cross-sharing holdings, interlocking directorates, joint ventures, and long-term business relationships--all underpinned by common educational and historical links--create a family of companies that do not depend on formal controls, but rather recognize their mutual interests."²¹³ These keiretsu are the natural successors of the pre-war zaibatsu (financial cliques), those huge industrial/ financial concerns like Mitsui, Mitsubishi, Sumitomo, and Yasuda, which dominated the Japanese economy up until 1945.

²¹¹Rapoport, 76.

²¹²Chalmers Johnson quoted in William J. Holstein, "Mighty Mitsubishi Is On The Move," Business Week 3179, (September 24, 1990): 100.

²¹³Holstein, "Mighty Mitsubishi Is On The Move," 100.

These zaibatsu were family-owned networks of industrial, financial, and commercial firms, with a "...holding company (limited or unlimited partnership) acting as a central focus for the group."²¹⁴ The groups were held together primarily through a system of internal financing by the groups' own banks, and the "close connection between the concern's various enterprises was maintained by such means as interlocking directorships and mutual shareholding."²¹⁵

Attempts were made by American Occupation authorities to breakup the zaibatsu after the Second World War, for it was felt that they had "assisted the development of aggressive militarism in Japan."²¹⁶ Through such devices as the Anti-Monopoly Law of April 1947, which "...prohibited holding companies, private monopoly, cartel agreements, unfair dealings and competition, shareholding above certain designated levels, as well as containing other related provisions," and the December 1947 Deconcentration Law (Law for the Exclusion of Excessive Concentrations of Economic Power), which "...was aimed at disbanding existing organizations considered dangerously monopolistic," Occupation authorities managed to break the power of the zaibatsu families them-

²¹⁴Janet Hunter, Concise Dictionary of Modern Japanese History (Berkeley: University of California Press, 1984), 254.

²¹⁵*Ibid.*, 254.

²¹⁶*Ibid.*, 255.

selves, but they were unable to completely destroy the zaibatsu system of interconnected companies.²¹⁷ Janet Hunter points out that "the failure to touch banks, subsequent legal reform, and government policy since the Occupation mean that many of the connections between companies dissolved at the time have been revived," and now the keiretsu have appeared in place of the zaibatsu, albeit in less dominant form.²¹⁸ In fact, "three of the big six horizontal keiretsu were formed in the 1950s..." out of pieces of the zaibatsu, and "the other three have formed around major banks."²¹⁹

Currently, Sumitomo, Mitsui, Mitsubishi, Fuyo, Sanwa, and Dai Ichi Kangyo are the six dominant keiretsu in Japan (with Hitachi, Toyota, and Matsushita rapidly progressing to the top ranks). They are business groups which "...sprawl horizontally, like Mitsubishi with nearly 190 member companies and annual sales of over \$300 billion, and vertically, like Toyota with 175 primary suppliers and 4,000 secondary ones. In addition, distribution alliances exist between leading manufacturers, like Matsushita, and thousands of retailers nationwide."²²⁰ Each of these keiretsu has companies which

²¹⁷Ibid., 255.

²¹⁸Ibid., 255.

²¹⁹Rapoport, 77.

²²⁰Ibid., 77.

compete in every major sector of the Japanese economy--a fairly typical example would be "...the structure of the Sumitomo group, which has major companies in such fields as banking, insurance, trading, steel, electronics, glass, oil, forestry, and metals; and overall sales of over \$200 billion."²²¹ Many American businessmen fearfully maintain that the keiretsu system "...pulls together government, industry, capital, and the best information on high-technology worldwide to create a machine that grinds competitors into powder."²²² Typical are remarks like those made by Jim Martin, head of Rockwell International's Asia Technology Liaison Office in Tokyo, who says: "I don't know which system is better--Japan's or ours. But I know which one is winning."²²³

The power of the keiretsu is enormous, for "although keiretsu companies constitute less than 0.1% of all companies in Japan, they account for 78% of the value of all shares on the Tokyo Stock Market;" but, it's not simply their immense market value which is important, because, "since World War II, the six biggest corporate families, comprising companies in different industries, have consistently accounted for about

²²¹Tasker, 157.

²²²Rapoport, 76.

²²³Ibid., 76.

one-quarter of Japan's rapidly growing GNP."²²⁴ The interrelationships within the groups are far beyond anything that could be found in the United States, because anti-trust legislation would quickly break up anything close to what can be seen monthly in the boardrooms of these Japanese keiretsu. For instance, "when the Sankin-kai, or president's council of the DKB group, gets together for its monthly lunch, the presidents of the world's largest bank (Dai-Ichi Kangyo), the world's largest textile company (Asahi Chemical), and the world's second-largest computer company (Fujitsu) are at the table, along with the heads of Kawasaki Steel, Isuzu Motors, cosmetics maker Shiseido, and a couple dozen other important companies."²²⁵ The American equivalent would be like having IBM, American Express, General Electric, and Citicorp all belonging to a financial group which works to protect and expand the influence of each of its companies. The Federal Trade Commission would call it simple collusion and bust it up before their presidents ever had a chance to sit down at the table, much less eat any lunch.

Norman J. Glickman and Douglas P. Woodward point out that one of the reasons the keiretsu are so successful in the United States is because they are able to bring their monopo-

²²⁴Ibid., 77.

²²⁵Ibid., 77.

listic behavior to the US with minimal interference. Because "...collusion and other forms of anticompetitive practice are difficult to detect across borders [in Japan]," it is almost impossible for the Justice Department and the Federal Trade Commission to break up monopolistic competition from the Japanese.²²⁶ Consequently, "through the keiretsu, the Japanese transfer strong industry ties to the United States and build a separate economic structure of assemblers and suppliers, avoiding ties with local industry. Evidence of this process is already present in the Japanese-American auto industry ...[and] the strong, but often hidden vertical linkages among Japanese companies can inhibit and destroy U.S. competitors."²²⁷

Japanese keiretsu ties in the United States "...account for more than half the Japanese-owned manufacturing facilities in California."²²⁸ The problem this poses for the American economy is that Japanese "...manufacturers will almost always support their own suppliers at home or abroad before buying from the Americans."²²⁹ This has been confirmed by a "Univer-

²²⁶Norman J. Glickman and Douglas P. Woodward, The New Competitors: How Foreign Investors Are Changing the U.S. Economy (BasicBooks, 1989), 295.

²²⁷*Ibid.*, 295.

²²⁸Rapoport, 80.

²²⁹*Ibid.*, 80.

sity of Michigan study of a Honda plant in Ohio, [where] only 16% of its parts requirements were met by U.S. suppliers; the rest came either from Japan or from transplanted Japanese suppliers."²³⁰ This extensive group support among the various kaisha (the generic term used for a Japanese business corporation) within the keiretsu goes way beyond just the automotive industry. All the keiretsu try to provide ready-made markets for their individual firms. As a high-ranking executive of NEC admitted: "We can always count on a customer base among the other Sumitomo Group companies. It does not mean we get 100 percent of the business, but we know we'll get most of it. It lends stability to our planning and reduces risk."²³¹

While Japan does have a Fair Trade Commission, it does little to inhibit this type of collusive corporate behavior. As Makoto Kurita, a director of the commission, baldly stated: "Continuous or strong relationships between companies do not necessarily result in monopolistic behavior or reduce competition."²³² This remark is true in only one sense, because

²³⁰Ibid., 80. Rapoport reports that a Japanese auto executive confirmed this by admitting that "first choice is a keiretsu company, second is a Japanese supplier, third is a local company."

²³¹Prestowitz, 160. The Japanese would rather purchase an inferior product produced by one of their fellow keiretsu companies than break ranks and buy a superior American product. To the Japanese, this sense of mutual obligation and duty to one another seems only reasonable, because no one wants to see a Japanese company suffer at the hands of foreign competition.

²³²Rapoport, 80.

while there is certainly monopolistic behavior amongst the kaisha within a particular grouping, the keiretsu themselves tend to compete fiercely with one another in the Japanese domestic market, as well as overseas.²³³ In fact, one of the primary reasons Japanese companies are able to compete so vigorously in the American market is because they are the hardy survivors of their own domestic market, which is probably the toughest and most hotly-contested in the world.²³⁴ Nevertheless, this "...relaxed [Japanese] approach to antitrust makes targeting possible," and "to many Americans, combined efforts by government and groups of Japanese companies to tackle specific industries or technologies is like industrial smart bombing--aimed at them."²³⁵

²³³There have been about a dozen Japanese automobile plants built in North America--plants which will give the Japanese an annual capacity of over 2 million automobiles. There are also some 300 Japanese component makers which have also set up facilities in the US. One important result of this shift away from exports to local production is that the Japanese are now far better positioned to compete in global markets than the Americans, who have been essentially shut out of Japan.

²³⁴See in Michael Porter, The Competitive Advantage of Nations (New York: Free Press, 1990), p. 401, where Porter says that "demand conditions prove to be one of the most important of the determinants of national competitive advantage in Japanese industry. In a remarkable number of the industries in which Japan achieved strong positions, the nature of domestic demand characteristics provided a unique stimulus to Japanese companies. The domestic market, not foreign markets, led industry development in the vast majority of Japanese industries. Only later did exports become significant."

²³⁵Rapoport, 84.

James Abegglen has described the general pattern used by the kaisha for their competitive thrust into world markets.

The pattern calls for:

...rapid growth of the Japanese market; fierce competition in Japan for marketshare; steadily improving cost and quality position of the leading Japanese companies; then an export drive by the domestic winners from "Fortress Japan's" maturing industry, their base position protected from the lack of foreign competition in the Japanese market.²³⁶

Naohiro Yashiro, a former OECD official, supports this view and points out that "Japanese manufacturers engage in aggressive price competition in open foreign markets but take advantage of a sheltered distribution sector to avoid price competition at home."²³⁷ This offers Japanese firms in the United States a tremendous advantage, for the Japanese "...domestic market is a relatively stable arena that allows the Japanese corporation to concentrate on competition abroad. In the battle for foreign market shares, Japanese managers are aided by 'economies of scale' achieved through reliance on a solid share of the home market and relatively high domestic earnings that often subsidize the exports."²³⁸

This protection at home from foreign firms comes largely from the Japanese institution of the kigyo keiretsu, or

²³⁶Abegglen and Stalk, 214.

²³⁷Naohiro Yashiro, 18-19.

²³⁸van Wolferen, 398.

enterprise groups. These are an extensive network of relationships which tie both suppliers and distributors in with a particular manufacturer. In fact, "...almost two-thirds of all small manufacturers are financially dependent on one of the large firms...."²³⁹ This pervasive network is perhaps the single most important structural obstacle faced by American firms when they attempt to enter the Japanese domestic market, for the Japanese place great emphasis on the importance of personal relationships in business, and, consequently, there is a strong sense of inherent loyalty built into the entire commercial system.²⁴⁰ Suppliers and distributors become "captive partners" with a particular manufacturing company, and it is considered extremely disloyal for those suppliers or distributors to deal with that manufacturer's competitors.²⁴¹

The keiretsu system brings many other advantages to Japanese companies as well. The highly-integrated structure and tremendous assets of the keiretsu allow it to protect and

²³⁹Ibid., 171.

²⁴⁰See in Thurow, The Zero Sum Solution, p. 361, where he asks the problematic question: "How does an American firm break in as a new supplier of industrial components when Japanese firms place a premium on maintaining long-term intimate supply relationships in the just-in-time inventory system?"

²⁴¹Karel van Wolferen comments on page 393 of his book that "wholesalers and retailers are not independent competitive units. A majority of shops retail-ing durable goods are, in fact, comparable to the regular subcontractors of Japanese manufacturers. They are provided by the manufacturers with capital, and if necessary, technical know-how."

support declining industries within its grouping, while at the same time providing massive financial backing for those companies in expanding sectors of the economy. This offers Japanese firms, which compete against American companies, significant advantages; for example, whereas American firms will raise the majority of their funds by issuing and selling shares, the Japanese kaisha rely heavily upon bank financing. This translates into dramatically different perspectives on how to conduct business: the American firm must constantly concern itself with short-term economic performance lest its quarterly P&L adversely affect its stock price. The Japanese kaisha by contrast, can take a long-term approach in its competition with that same American firm because once the banks are satisfied with the kaisha's long-term plans, the Japanese firm becomes relatively free from any short-term pressures to generate immediate profits and, therefore, it can concentrate on improving its all-important market share.

With respect to the losses a Japanese firm can sustain in its battle for this increased market-share abroad, Japanese exporters are ultimately limited only by the relative strength of the other firms in their keiretsu and their major banks. This is an important element in Japan's industrial policy, for implicit *ex ante* guarantees against bankruptcy are "...particularly important in Japan, in view of the traditional heavy reliance of many corporations on borrowed funds.

Knowledge that a sector has priority status, as shown in the availability of JDB [Japanese Development Bank] loans and as known via administrative guidance from the Ministry of Finance or the Bank of Japan, means that lending to firms in that sector becomes virtually risk free."²⁴² In fact, if the firm is in one of the industries which the government considers "essential," the firm and its main lending banks can rely on the ultimate guarantee of Japan's central monetary authorities.²⁴³

Because of this intimate relationship with their bankers, Japanese firms possess a substantial advantage over their American rivals in managing corporate debt. Japanese kaisha typically carry around 70 percent debt in relation to their total capitalization; the average for American companies is substantially lower, with most companies carrying about 30 percent debt.²⁴⁴ Using the Nippon Electric Company (NEC) as an example, it rapidly becomes clear why the Japanese system of capitalization offers Japanese firms a distinct advantage over similar American companies.

In 1986, for instance, NEC had a debt ratio of 70 percent. This high debt level had the effect of lowering its cost of

²⁴²Boltho, 192.

²⁴³van Wolferen, 399.

²⁴⁴Prestowitz, 168.

capital and enabled NEC to leverage its investment rates to potentially three times its rate of earnings growth. NEC's cost of capital was essentially lowered because interest payments on that debt were less than the total returns expected by shareholders on equity because of the higher risk assumed by them. That, combined with the fact that interest payments were deductible from taxes as a business expense while payments to shareholders were not, made NEC's high debt an asset instead of a liability. Following through with this analysis then, NEC had the ability to leverage its debt so that it was able to borrow twice as much as its new earnings. This meant that NEC had the capability of investing three times its retained earnings into capital growth. An American company would be hard pressed to even come close to this level of capitalization. NEC's sustainable growth rate (the theoretical rate of annual growth a firm can sustain over a period of time, given specified levels of earnings, debt, taxes, and dividend payments) is therefore about 24 percent, as opposed to an American firm like DuPont (which has a much lower debt ratio, but cannot capitalize as quickly as a Japanese firm) which is happy to obtain 15 percent.²⁴⁵

Simply put, American firms cannot afford to carry the same amount of debt as the Japanese, and the primary reason is

²⁴⁵Ibid., 168-169.

risk. Large debt for American companies usually translates into Chapter 11 bankruptcy if there is a significant reduction in sales during a prolonged economic slow-down. Japanese kaisha, however, actually suffer much less risk on even greater debt because of the risk-reducing structure of Japanese industry. Probably the most important aspect of this is that Japanese lenders are usually large main banks and industrial conglomerates which are shareholders in the corporations to which they loan money; consequently, these loans will not be called regardless of how poorly a firm performs over the short-run. The Japanese view investments much differently than Americans; because, for the Japanese, "...investments are not primarily for the purpose of making money but are to ensure the groups' position and survival in strategic industries in the future."²⁴⁶

²⁴⁶Prestowitz, 167-169.

IV. AMERICAN PERCEPTIONS OF THE JAPANESE ECONOMY AS A THREAT TO US NATIONAL SECURITY: A CLOSER LOOK AT THE TRUTH

To many on both sides of the Pacific, the economic rise of Japan appears to have led to a fundamental shift in the balance of world economic power. The Japanese today seem to be the financial giants of the modern age, and they now challenge the United States in almost all areas of industrial production and technology. To begin to understand the magnitude of Japan's growing presence in the international marketplace, it might be helpful to examine some of the statistics. A Club of Rome report, for example, pointed out that "from 1985 to 1987, Japan's total national assets rose from \$19.6 trillion to \$43.7 trillion. During the same three-year period, the total national assets of the United States climbed from \$30.6 trillion to [only] \$36.2 trillion."²⁴⁷ The difference between the two rates of increase during those years is startling, and that seems to be only the beginning, for the "OECD estimates that the Japanese [overall trade] surplus will be...\$37 billion in 1991, and \$36 billion in 1992....," with "the international assets of Japan...reach[ing] \$1 trillion in the mid-1990s."²⁴⁸

²⁴⁷Alexander King and Bertrand Scheider, The First Global Revolution (New York: Pantheon Books, 1991), 79.

²⁴⁸*Ibid.*, 79.

Looking at the financial imbalance which is developing between the United States and Japan shows an equally disheartening shift in Japan's favor, and it can be brought into perspective through Japanese economist Yoichi Shinkai's rough comparison of American and Japanese external assets and liabilities. Shinkai says that:

The net balance of Japanese securities investments in the United States is in the vicinity of \$200 billion and the outstanding direct investment to build U.S. plants and acquire American property at a little less than \$100 billion. Then there are the outstanding Japanese loans, which amount to tens of billions of dollars. American funds in Japan, meanwhile, are much smaller, especially for direct investments and loans. When the two are subtracted, Japan has a net asset position amounting to well over \$200 billion. This is, moreover, a conservative estimate.²⁴⁹

Shinkai further states that when Mitsui and Taiyo Kobe banks merged in 1989, many Americans were surprised to find out that "...in terms of deposits, the new bank would be the world's second largest and that Japanese banks [now] dominated the world's top-10 rankings. Quietly, Japan's banks, securities houses, and insurance companies had become global behemoths."²⁵⁰ Today, "Japanese banks control nearly 10

²⁴⁹Shinkai, 23.

²⁵⁰Ibid., 22. One of the primary reasons why Japanese banks suddenly have come to dominate the world banking system, is that, unlike American banks, the Japanese are able to not only invest in publicly traded companies but also are allowed to count paper profits as capital. One important result of this critical difference between the two nations' banking regulations, was that during the 1980s, the soaring Japanese stock market created billions of dollars in capital for Japanese banks--a flood of capital, which in turn, greatly boosted their lending capacity, and assisted them in their penetration of the American market.

percent of U.S. retail banking assets--up from next to nothing a decade ago," and in the state of California, the Japanese presence is even larger, for "...five of the top ten banks are now Japanese."²⁵¹ A closer look at some other statistics show that the Japanese are not only making significant inroads into American banking, they are also beginning to supplant the US in many *international* finance markets as well. For example:

In early 1984 U.S. banks were lending and borrowing more than those of any other country, with a 27% share of the global total. Japan was in second place with a 23% share....But Japan's share was rising fast, and the U.S. share was declining. Before the year was out the two countries had traded places, and Japan went on to command more than a 35% share at the start of 1988, while the United States dropped to about 15%.²⁵²

And, it isn't only in banking that the Japanese are beginning to pull ahead of the Americans either, because Japanese firms have become powerhouses in the securities market as well. Over the last decade, the Japanese have moved aggressively into securities, and, "the 'Big Four' Japanese securities companies--Nomura, Daiwa, Nikko, and Yamaichi--are four of the largest securities firms in the world today," and, in fact, "in terms of market capitalization, Nomura is currently more than twenty times the size of Merrill Lynch, the largest

²⁵¹Burstein, 38. See too in Choate, Agents of Influence, page xv, where Choate says that the Japanese "...control more than \$329 billion of U.S. banking assets (a 14 percent share of the U.S. market).

²⁵²Ibid., 22-23.

American brokerage house."²⁵³ These are certainly dismaying developments for Americans used to being number one, and the extent of the Japanese economic presence in other areas of traditional American dominance is equally discouraging. A quick glance at recent figures, show that:

1. In 1987, the "...total value of all stocks listed on the Tokyo Stock Exchange surpassed the total of all stocks listed on the New York Stock Exchange,²⁵⁴..." and the Japanese lead is continuing to widen;²⁵⁴
2. If the *Fortune* 500 began ranked American *subsidiaries* of Japanese-owned companies like Nissan, Sony, and Honda, "...they would already account for thirty of the biggest U.S. industrial corporations.";²⁵⁵
3. "A single Japanese company--Nippon Telegraph & Telephone (NTT)--is worth more than IBM, AT&T, General Motors, General Electric, and Exxon *combined*.";²⁵⁶
4. Already more than a quarter-million Americans are employed by Japanese owned companies in the United States, and that number is expected to "...rise to a million in the 1990s.";²⁵⁷
5. Japanese investors now finance "...as much as 30 percent of the American government's budget deficit,"²⁵⁸ repre-

²⁵³Burstein, 37-38. Burstein also says that Nomura's pretax profits in 1987 were \$4.1 billion, an amount equal to the profits of the *entire* US securities industry.

²⁵⁴*Ibid.*, 38.

²⁵⁵*Ibid.*, 38.

²⁵⁶*Ibid.*, 38.

²⁵⁷*Ibid.*, 38.

²⁵⁸*Ibid.*, 37.

sentencing a net purchase of almost \$200 billion from 1984 to 1989;²⁵⁹

6. "One in fifteen new funding dollars for young [American] high-tech companies now comes from Japanese sources, who see involvement with these innovative entrepreneurs as a 'window' on the latest American advances.";²⁶⁰
7. The Japanese "own \$285 billion of America's direct and portfolio assets.";²⁶¹
8. "Between 1980 and 1988, Japanese direct investment in the United States increased by more than 1,000 per cent.";²⁶² and
9. The Japanese "produce nearly 20 percent of the semiconductors sold in the United States; more than 30 percent of the automobiles; almost half the machine tools; and a majority of the consumer electronics, among dozens of other goods and services."²⁶³

In addition to these developments, Japan is now the largest creditor *and* the largest net investor in the world, and its GNP per capita already has overtaken that of the United States.²⁶⁴ This should be no surprise when one realizes that during the last decade alone, "...the U.S. imported some \$920 *billion* more in merchadise than it exported," and

²⁵⁹Takahiko Ueda, "Japanese money stays at home," The Japan Times Weekly International Edition, (18 March 1991): 1.

²⁶⁰Burstein, 40.

²⁶¹Choate, Agents of Influence, xv.

²⁶²Ibid., xv.

²⁶³Ibid., xvi.

²⁶⁴Wilkinson, 90-91.

much of that was Japanese-made.²⁶⁵ The Japanese have flooded American markets with manufactured exports, and "...the American deficit with Japan actually grew as a percentage of the overall U.S. trade gap and by late 1989 accounted for nearly half the total."²⁶⁶

The increasingly gloomy viewpoint held by many Americans that Japan is starting to overtake the United States in almost all areas of the economic activity has been reinforced by polls similar to that conducted by Business Week in September of 1990. It sampled executive attitudes simultaneously across three continents, asking American, European, and Japanese business leaders to comment on "...the popularly held view that Japan is destined to become the world's leading economic superpower by the end of the century." Their responses have to be discouraging for American leaders:

Only 18% of Americans and 23% of Japanese polled said they believed Japan will reach that position, although more than half of Japan's leaders think they will increase their share of world market at the expense of their industrial rivals. But 30% of European expect Japan to reign as the No. 1 economic power by the end of the century, and a *startling 50% believe Japan has already won the global economic race* [italics mine].²⁶⁷

Business Week continues with the dismal prognosis that "...one

²⁶⁵Stewart 14.

²⁶⁶Holstein, 244.

²⁶⁷Keisuke Mizumoto, "How Global Executives See Japan's Power," Business Week, 3 September 1990, 48.

clear agreement emerges from the poll: The outlook for the U.S. role in the global economy is grim. Asked about the U.S. share of the world market in 10 years, 73% of Japanese respondents, 54% of Europeans, and 47% of Americans said it would decrease."²⁶⁸

All of these negative indicators lead "...American industrialists to say things about an ally that they should not be saying about an enemy."²⁶⁹ David Smick, publisher of The International Economy magazine, observes that as a result of Japan's growing economic power, "there's been a sea change in American politics....In Congress you have to be a Japan-basher or you're considered either a naive idiot or a tool of the Japan lobby. There's no rational middle anymore."²⁷⁰

A. AMERICA'S "JAPAN-BASHERS": WARNINGS ABOUT THE JAPANESE

There are significant problems in the US-Japan relationship, because "for all our dealings of the past four decades--one war, a surprisingly successful occupation, innumerable government conferences, summit meetings, books, seminars, guided tours, student exchanges, and a [multi-billion dollar] yearly trade relationship--the perspective of Americans on

²⁶⁸Ibid., 48.

²⁶⁹Thurrow, The Zero Sum Solution, 360.

²⁷⁰Kondracke, 12.

Japan has been extraordinarily bad,"²⁷¹ and the reason is directly related to the economic competition between the two nations. As the economic battle is now joined, it appears to many Americans that Japan holds a distinct advantage over the United States--an advantage that many of them feel is distinctly "unfair." Clyde Prestowitz makes this point very vividly, when he declares that:

Few, if any, American companies can compete with the Japanese in the areas the latter deem important. The social and industrial structure of Japan have made it an extremely difficult market to penetrate; furthermore, the Japanese government views industrial performance as akin to national security and pours enormous energy into ensuring that its industry is the world leader. By comparison, the United States has been relatively easy to penetrate. Its open society makes for an open market that has welcomed foreign goods and foreign businessmen. *Most important, however, the United States does not view industry as a matter of national security as Japan does* [italics mine].²⁷²

His views are increasingly shared by many informed Americans, who have begun to charge, among other things, that "the unemployment that would normally flow from a stagnant Japanese economy is essentially being exported to the United States," a situation which "...was acceptable when Japan had a small weak economy and America a strong one, but that it is not permissible given a large Japanese economy and a less strong American one."²⁷³

²⁷¹Gibney, Japan: The Fragile Superpower, 5.

²⁷²Prestowitz, 13.

²⁷³Thurrow, The Zero Sum Solution, 360.

A more serious contention is that during the last couple of decades, the United States has allowed Japan to take advantage of certain unique American vulnerabilities--the most important one of which was the ability of political lobbies to influence American decision-making. In his controversial best-seller, Agents of Influence,²⁷⁴ Pat Choate says that the Japanese have managed to use their purchased "political clout" to obscure the methods by which Japanese industry has penetrated the American marketplace. According to Alan Webber, managing editor of the Harvard Business Review:

The world has changed and Japan is different. On both sides of the Pacific, the old, entrenched interests are hard at work denying these conclusions, pretending that business as usual will do, and silencing the observers and analysts who call attention to the new situation. Japan's motives are not hard to fathom; after all, every day the country gains in wealth, economic power, and global momentum. The longer Japan successfully confounds U.S. leaders into thinking that the old rules still apply, the longer the transfer of wealth and power can continue unimpeded. It is not *Japan's* job to inform *us* of our blind stupidity.²⁷⁵

²⁷⁴See in Mary Lord, "Does Japan have too much clout?," U.S. News & World Report, September 17, 1990, p. 44, where Lord says that "the controversy appears to have contributed to Choate's removal from his post as TRW's vice president for policy analysis, though he still remains with the company as a consultant. TRW denies removing the vocal trade critic from his job, but friends assert the Cleveland-based technology company sought Choate's resignation rather than jeopardize some \$400 million in business with Japan." See too in an interesting sidelight that "ironically, Choate's message promises to play better in Tokyo than in Washington. Well before the first galley proofs for *Agents of Influence* had rolled off the presses here, the Japanese translation rights sold for close to \$300,000--a record for any foreign book."

²⁷⁵Choate, Agents of Influence, 147.

In part, this "blind stupidity" which Choate and others declare has prevented the United States from taking any effective action to reduce American economic vulnerabilities is a function of the American political system itself.²⁷⁶ Given the democratic nature of this system, every couple of years a new set of officials are either elected or appointed and they must learn afresh that the Japanese economy does not operate in the same manner as their own; therefore, there tends to be a doctrinal adherence to the concept of "free trade," an institutional bias which often results in stopgap trade policies which do little more than end up imposing handicaps on *American* trade and industry while enriching the Japa-

²⁷⁶See in John B. Judis, "The Japanese Megaphone," p. 25, where Judis tries to put it as simply as possible: "the United States must hold discussions among its own citizens before it can hold discussions with Japan. There have to be two separate debates or discussions. Americans first have to decide among themselves what is in their national interest. But the effect of Japan's influence campaign is to make the first debate impossible. When two prominent Americans rise to discuss U.S.-Japan trade relations, there's a good chance one or both is in the pay of the Japanese." See also in Morton Kondracke, "Trade Gales," The New Republic 202, (April 2, 1990), p. 13, where Kondracke, taking a slightly different view of the problem, writes that "in hearings before Congress, officials of the Commerce Department and the U.S. Special Trade Representative's office sound nearly as hard-line on the Japanese as the legislators they are addressing. Meanwhile, officials at the State Department, National Security Council, Office of Management and Budget, and the Council of Economic Advisors are eager to avoid a rift, lest it upset the close cooperation the United States has with Japan on defense, economic assistance to Eastern Europe and the Third World, and global stability--not to mention job-providing Japanese investment in the United States and purchase of U.S. Treasury bonds to finance the budget deficit."

nese.²⁷⁷ This constant turn-over in officials has resulted in a paucity of institutional memory in the very government agencies designed to oversee American economic interests as they relate to Japan.²⁷⁸

To make matters worse, critics like Choate say, many of the top American officials who do come to understand the nature of the Japanese challenge are often co-opted by the Japanese themselves, for the money spent by the Japanese lobby creates what they call "structural corruption," which is "...a kind of systemic bias that does not require conscious acts of corruption but yield much the same results. Government offi-

²⁷⁷Endymion Wilkinson, in his book Japan Versus The West: Image And Reality, cites on pages 186-187 a 1987 OECD study of the costs of restricting imports in the automobile industry: "(t)he OECD reached the following conclusions:

- * The immediate losses to the US and European consumers were enormous (\$5 billion a year in the USA).

- * The short-term benefits to domestic industry and employment were modest at best.

- * The long-term effects were negative and included: distortion of investment patterns; delayed reaction of the domestic companies; and increased import penetration by non-Japanese firms, for example from Korea and Yugoslavia (as had happened in so many other sectors).

- * A major plus was the increase of Japanese investment and diffusion of its manufacturing techniques through a wave of joint ventures and other alliances.

- * The winners were the firms, especially Japanese exporting firms, because they were able to take higher profits as they raised their prices and went up market with luxury models such as the Acura, Infiniti or Lexus."

²⁷⁸van Wolferen, 406.

cials in the U.S. Trade Representative's office are constantly tempted to allow their negotiating stance to be colored by lucrative future employment possibilities as Japan lobbyists."²⁷⁹ As soon as they leave office, many of these former officials are quickly seduced by the Japanese into using the expertise and influence they gained through their official positions in the US government to lobby for Japanese interests. There are literally hundreds of Washington's power elite now working to advance Japan's political and economic interests in America.²⁸⁰

²⁷⁹John B. Judis, "The Japanese Megaphone," The New Republic 202, (January 22, 1990): 20. The author cites an example of this type of behavior: "Two years ago Robert E. Watkins, Deputy Assistant Secretary of Commerce for automotive affairs and consumer goods, resigned after the Associated Press reported that he had sent about 500 letters and resumes to companies including Mazda, Toyota, and Nissan, describing himself as 'uniquely qualified to establish and lead an automotive association committed to market principles.'"

²⁸⁰Choate, 15. Choate also cites a 1986 General Accounting Office (GAO) survey on page 19 which revealed that seventy-six former federal officials had become registered foreign agents. Among them were eight special assistants to the President, five assistants to the President, two deputy assistants to the President, one presidential counselor, one deputy White House press secretary, one chief of staff to the Vice President, a chairman and a vice chairman of the U.S. International Trade Commission, two Deputy U.S. Trade Representatives, six senators, nine representatives, twelve senior Senate staff, five senior House staff, and four retired generals. Of these ex-officials, almost one-third of them went to work for Japan. See too in John B. Judis, "The Japanese Megaphone," p. 23, where Judis states that "this army of lobbyists and advisors furnishes Japanese companies with the troops necessary to win battles in Washington. The Japanese usually know what the Administration plans to do before most Administration members do. Through their lobby and their funding of think tanks, the Japanese have also acquired a virtual monopoly of economic expertise. When House or Senate members want to learn about a complex trade issue, they will almost inevitably fall back on someone who is an advisor to, a lobbyist for, or a recipient of funding from the Japanese."

To the Japan-bashers this means that Japan has a strategic economic advantage over the United States because this Japanese lobby works hard to influence American perceptions about the Japanese economic threat, while at the same time Americans find little opportunity to exert the same sort of political influence in Japan.²⁸¹ In outlining this threat, Choate lists these six critical goals of the Japanese lobby:

1. to keep the American market open for Japanese exports;
2. to smooth the way for additional Japanese purchases of key American assets;
3. to prevent discovery or criticism of Japan's adversarial trade practices;
4. to neutralize the political opposition of Japan's American competitors;
5. to influence America's trade policies toward Japan, as

²⁸¹Choate maintains on page xviii that the cost of this lobby to the Japanese is more than \$400 million a year--an amount roughly equivalent to the combined total expenditures of the 1988 House and Senate congressional campaigns. See too in Donald C. Hellmann, "The Imperatives For Reciprocity and Symmetry...", p. 256, where Hellmann writes: "It is inconceivable that a similar influence could be exerted on the making of Japanese economic foreign policy. Influence in Japan flows through well-established channels, defined not by legal rules but by a web of personal and informal ties that blur distinctions between the public and the private sectors. This largely closed, elitist process offers limited access for domestic interest groups and far less for foreign lobbies. The dynamics of the Japanese political system proscribe the development of an American lobby, ensure more effective institutional management by Japan no matter what reforms the United States may institute, and will surely be a source of frustration to American political leaders in future economic conflicts." See also in John B. Judis, "The Japanese Megaphone," where he says that "in Japan no self-respecting lawyer, let alone former government official, is willing to lobby for an American company. 'They would be seen as paid men,' one Japanese official remarked. But what is culturally and morally forbidden in Japan is accepted procedure in contemporary Washington. 'In Washington,' Chalmers Johnson says, 'the fix is always in.'"

5. to influence America's trade policies toward Japan, as well as its policies toward Europe and other nations where Japan has significant economic interests; and
6. to force the integration of the U.S. and Japanese economies to the point where America will be politically and economically unable to confront Japan's mercantile policies.²⁸²

Japan-bashers say that the public relations battle waged by Japan is not confined to just paid lobbyists pushing the above agenda, however, because the most influential advocacy of the Japanese point of view generally comes from the so-called Chrysanthemum Club.²⁸³ Through newspaper interviews, articles in professional journals, and speeches to influential organizations, these Americans push the Japanese propaganda line that Japan is not an economic threat to the US economy. Commenting on the Chrysanthemum Club, Kevin L. Kearns, an American diplomat who has served in Tokyo, reported in the Foreign Service Journal in December 1989 that members of this club, for whatever reasons:

Somehow fail to see the trail from predatory Japanese policies, to lost markets, to destroyed industries, to large

²⁸²Choate, xviii.

²⁸³The Chrysanthemum Club is generally thought to consist of Americans with an intellectual, personal, or business stake in maintaining good U.S.-Japanese relations. Choate maintains on pages 171-172 that this grouping contains not only businessmen who share in the Japanese economic success, but also members of America's foreign policy establishment who try to preserve "...the relationship" by defending Japan to Americans (like former Ambassador to Japan Mike Mansfield), Defense Department officials who wish to retain the status quo of American military bases in Japan, and many American academics who feel one-sidedly positive about Japan for a variety of reasons.

outflows of wealth in the form of trade deficits, and finally to the resultant decline in American power and influence...Chrysanthemum members seem to see their function not as representing U.S. interests but as balancing the demands of both sides...to make the increasing Japanese domination of the U.S. economy as painless a process as possible for our institutions and the American people.²⁸⁴

B. AMERICAN STRENGTHS AND JAPANESE WEAKNESSES

Arguments that the American share of world GNP has continuously declined since the end of the Second World War are true, but only if the American economic preponderance which prevailed immediately after the war is taken to be a valid benchmark for measurement. Use of this benchmark has always provided a fallacious argument about American decline though, because US dominance of the world economy during the early postwar years was an anomaly of history brought about by the unique geographic conditions of the war. Because of its protected position, American industry remained almost untouched by the war, thereby positioning it for a domineering position in global trade and commerce after 1945. As Germany and Japan staged spectacular postwar economic recoveries, the American share of world output did begin to shrink dramatically relative to those nations; but, "if a more appropriate and representative base year is used--say, the mid-1960s (or even a pre-World War II year such as 1938)--the remarkable fact is

²⁸⁴Choate, 172.

that the U.S. economy's share of the global product was about the same 'then' as it is now: about 22% to 24%."²⁸⁵

When viewed in this broader historical context, it is clear that the American share of the global economy has not significantly eroded--in fact, it has remained about the same. And, while "the U.S. balance-of-trade deficit has dropped from \$157 billion in 1987 to a projected \$80 billion shortfall in 1991."²⁸⁶ While the trend is down, the numbers are still frightening--that is, until one realizes that:

If America's 'trade' imbalance is measured on the basis of nationality of ownership rather than residency (i.e., adding the sales, net of local purchases, of overseas subsidiaries to the recorded trade balance and deducting all intra-firm flows to avoid double counting), then in 1986 America's recorded visible-trade deficit of \$144 billion is transformed into a \$57 billion surplus. Doing the same calculations today would probably give America the world's biggest trade surplus.²⁸⁷

Likewise, declinist fears about the "deindustrialization" of America are also beginning to appear increasingly misplaced, for while some analysts were busy bemoaning America's crumbling manufacturing base, many US manufacturing companies were *equally* busy making a remarkable comeback in world markets. Many business pundits declare that American industry

²⁸⁵Joseph S. Nye, Jr., Bound to Lead: The Changing Nature of American Power (New York: Basic Books, Inc., 1990), 6.

²⁸⁶Thomas A. Stewart, "The New American Century: Where We Stand," Fortune 123, (Fortune 1991/ The New American Century): 15.

²⁸⁷"Tricks of the trade," The Economist, (30 March 1991): 61.

has spent the 1980s "...mastering the discipline of making worldclass products."²⁸⁸ Hundreds of US firms have become pace-setters for the 1990s, by "...going after rivals on their own turf, by scouring the world for new products and the technologies to make them, by speeding products to market, by bonding with their suppliers, and by creating specialized goods for their customers."²⁸⁹

Part of the reason for this turn-around is that the United States has suddenly become one of the world's low-cost manufacturers again: American factory workers no longer lead the world in pay and benefits, (which could become a problem only if this eventually caused a decrease in American living standards),²⁹⁰ and the result has been a resurgence of American

²⁸⁸Erik Calonius, "Smart Moves By Quality Champs," Fortune 123, (Spring/Summer 1991): 24. Calonius writes that "the motto of the 1980s, as enunciated by Carl Stern of the Boston Consulting Group [was]: 'Products are expected to be nearly perfect.'"

²⁸⁹*Ibid.*, 24. The author gives these examples of 1990s-style American competitors: "Stanley Works, which proves that basic manufacturing can still be profitable in the U.S., even in New England; Compaq Computer, which gets more than 50% of its revenues abroad; Nike, the world's top designer and marketer of sports shoes; Monroe, a subsidiary of Tenneco, that sells defect-free shock absorbers to Toyota; and Rubbermaid, which sets the standard for humble housewares."

²⁹⁰See in article "U.S. exports rise, likely to power economy in future," p. 14A, where it states that "at current exchange rates, Americans earn \$14.31 an hour in pay and benefits. German workers, in comparison, earn \$17.58. In Japan, where pay has more than doubled since 1979, workers now earn the equivalent of \$12.63. Thus, part of the price of greater U.S. competitiveness has been paid by American factory workers. Blue-collar pay rose at a slower pace in the United States than almost anywhere else."

cost-competitiveness. This "...new cost-competitiveness varies from product to product, but what is striking is the huge across-the-board swing since the mid-'80s. Now the United States is even more competitive in manufacturing costs than it was in the late '70s, when its trade in factory goods was balanced and exports were booming."²⁹¹ The result is that "...America's docks are jammed with exports, up 77% in the 1980s to a record \$398 billion last year [1990]."²⁹²

This unheralded American revival in manufacturing has been further outlined in an comprehensive Commerce Department report released earlier this year. The two-and-a-half-year study showed that "manufacturing's share of GNP fell from 1979 to 1982, to its post-World War II low, and had not recovered by 1987. But by 1988, the share of GNP matched that of 1979, and by 1990 exceeded it."²⁹³ The figures clearly show that manufacturing in the United States has rebounded dramatically: industrial output in 1990 accounted for 23.3 percent of the

²⁹¹"U.S. exports rise, likely to power economy in future," San Jose Mercury News (April 21, 1991): 14A.

²⁹²Stewart, 15.

²⁹³Sylvia Nasar, "American Revival in Manufacturing Seen in U.S. Report," The New York Times (February 5, 1991): A1. See also where Nasar cites a related report by the Bureau of Labor Statistics that showed that manufacturing productivity had been growing at a sluggish 1.4 percent of GNP in the 1970s--reflecting a rate of growth which was only a third the pace at which US trading partners like Japan were recording gains in their own hourly worker efficiencies. That rate steadily increased during the 1980s, and it is now at a competitive 3.6 percent, matching the average rate of US trading partners.

American GNP--up significantly from its low of only 20 percent in 1982--and this percentage now places US manufacturers on par with their counterparts in Western Europe and Japan.²⁹⁴ In fact, during the last half of the 1980s, US share of exports by all industrial countries expanded until it is now larger than the previous peak year of 1980. As Robert Lawrence, an economist at the Brookings Institution, said about the findings: "Fears of [American] deindustrialization were overblown."²⁹⁵

In fact, even many of the industries which derogatorily had been written off as "smokestack America" began to restore their competitive positions in the mid-1980s, as a weakening dollar pushed down the prices of American manufactured goods abroad. With the dollar's value today about a third less than it was in 1985, the United States is now able to "...ship steel to Seoul. transistors to Tokyo, cars to Cologne and bicycle pants to Bologna. Exports ranging from beer and boards to carpets and computer chips have surged by 76 percent since 1986."²⁹⁶

Even with the dollar gaining strength recently (there has been a 10.3% rise in the dollar since January 1991), many

²⁹⁴Ibid., A1.

²⁹⁵Ibid., A1.

²⁹⁶"U.S. exports rise...", 14A.

economists believe that American export growth will continue. As Antonio Villamil, chief economist at the Commerce Department states: "American exporters have developed improved and expanded distribution networks abroad...[and] these advantages won't fade away as the dollar recovers."²⁹⁷ The numbers firmly support this contention. Almost all of America's top 50 exporters posted an increase in foreign sales in 1990. Boeing, the export leader, had over \$16 billion in foreign sales alone last year, a leap of over 46% from 1989 levels.²⁹⁸

These types of numbers are generating an increasing optimism about American business, an outlook which is beginning to show up repeatedly in US business journals. For instance, a recent Business Week survey of its Global 1000, a database ranking of the world's biggest companies by market value as of May 31, 1991, showed that American companies "...were far better investments this year [than, surprisingly, the Japanese]. U.S. companies made up the entire list of the top 15 share-price gainers."²⁹⁹ While Japanese companies dominated the top ten global firms in sales dollars, taking the top five positions, American firms dominated the list of companies

²⁹⁷James Beeler "Exports: Ship'em Out," Fortune 123, (Spring/Summer 1991): 58.

²⁹⁸Beeler, 58.

²⁹⁹Robert Neff, "A Year of Twists and Turns: U.S. Markets Shine as Japan Loses Its Lead and Europe Gets Pummled," Business Week 3222, (July 15, 1991): 52.

showing the most profits.³⁰⁰ For many Americans, the big surprise may be that the survey shows that US companies are even enjoying success in Japan itself. Exports to that country totalled \$48.6 billion in 1990, and are expected to increase even more this year.³⁰¹ Perhaps even more significant is that almost 60 percent of these exports are now manufactured goods, a fact which should silence critics who maintain that the US is becoming just another "colony" of the Japanese, capable of sending only raw materials to the "home islands." In fact, "...in 1989 U.S. manufactured exports to Japan totalled \$27 billion--higher than U.S. exports to Germany and France combined."³⁰² This growing strength in export markets like Japan means that American companies are now "...taking the battle for markets to its overseas competitors' home market ground. Last year 42% of manufacturers surveyed by Deloitte &

³⁰⁰Ibid., 52-53. The top ten companies listed by total sales (in billions of dollars) was: (1) C. Itoh, \$152.0; (2) Mitsui, \$150.8; (3) Sumitomo, \$144.9; (4) Mitsubishi, \$142.8; (5) Marubeni, \$141.6; (6) Exxon, \$116.0; (7) Nissho Iwai, \$111.8; (8) General Motors, \$107.0; (9) Royal Dutch/Shell, \$ 106.5; and (10) Ford Motor, \$97.7. By contrast, the top ten companies listed by profits (in billions of dollars) was: (1) Royal Dutch/Shell, \$6.53; (2) IBM, \$6.02; (3) Exxon, \$5.01; (4) General Electric, \$4.30; (5) British Telecom, \$3.56; (6) Phillip Morris, \$3.54; (7) Toyota Motor, \$3.19; (8) British Petroleum, \$2.87; (9) AT&T, \$2.74; and (10) Du Pont, \$2.31.

³⁰¹Beeler, 58.

³⁰²Bernard K. Gordon, "The Asian-Pacific Rim," Foreign Affairs 70, (Winter 1990/91): 154.

Touche declared themselves ready to invade the fortress of their toughest foe, Japan."³⁰³

This American assault upon the Japanese home market is being led by aggressive companies like Motorola, which is expecting its Japanese subsidiary, Nippon Motorola, to generate sales of close to \$1 billion this year (1991). By "...knocking down trade barriers and competing head-on with the Japanese on their own turf...", Motorola has become a huge success story in cracking the sheltered Japanese market.³⁰⁴ Motorola has shown that Americans not only can compete successfully with the Japanese in their own home market, but that US firms can beat them in both the development and sales of important high-technology products like cellular phones and microchips. In the United States itself, industry watchers are saying that "...after years of battering by quality-conscious Japanese companies, U.S. semiconductor equipment makers are slowly making a comeback....As one indicator, they cite a recent survey of customers that for the first time rated eight U.S. equipment companies among a list of the 10 best in the world."³⁰⁵ It is a welcome trend found in many high-technolo-

³⁰³Stewart, 15.

³⁰⁴Jim Impoco, "Fighting Japan on its home turf," U.S. News & World Report 110, (June 24, 1991): 50.

³⁰⁵Valerie Rice, "Making a comeback: U.S. chip equipment firms are gaining respect," San Jose Mercury News (May 21, 1991): 8E. See too in her article where she quotes Dan Hutcheson, president of VLSI Research Inc.,

gy manufacturing areas, even though in many high-tech areas, the US never lost its lead.

The United States, for instance, is still far ahead in the development of software for computers; and, in fact, with "...sales of \$40 billion last year [1990], the software industry is a national asset."³⁰⁶ Just how important is this software market? Peter Tasker offers this answer:

In communications and data processing the value of the manufactured part of the product--the hardware--is steeply declining as a proportion of the whole. The highest growth and the highest value added is in the software, the knowledge-intensive element that no machine can provide. In the new industrial order now taking shape, the winners, amongst both companies and countries, will be those who control the software market. So far, Japanese achievements in this area have been relatively undistinguished.³⁰⁷

While software development has always been an American strength, American firms have been falling behind their foreign competitors in many other types of product development, and Japanese companies "...were accelerating their development

as saying "American companies have had time to really study Japanese equipment for three or four years now, and the perception that it is automatically better is changing. American equipment is now pretty close or on par with the Japanese." Hutcheson further maintains that "American equipment companies have really gotten their act together. Their reputation is coming back."

³⁰⁶Thomas McCarroll, "Whose Bright Idea?," Time (June 10, 1991): 44.

³⁰⁷Tasker, 55. See too where Tasker writes that "although Japanese companies have captured the market for memory chips they have made little headway in the development of the more complex 'logic elements' that do the actual thinking. Nearly all the logics made in Japan and used in Japanese-made products are 'second-sourced' (licensed) from American companies."

cycles and getting higher quality, better performing, more attractively priced products to customers while U.S. firms were still lacing up their sneakers."³⁰⁸ That has changed, and as management consultant Preston G. Smith writes:

The tide is turning. Xerox, which was tardy in responding to Japanese low-end copiers, reduced its product development cycles 50 percent over the past decade and plans to cut another year out by 1993. A rapid development team at Carrier Transicold of Syracuse, N.Y., introduced a highly successful semi-trailer refrigeration unit in six months instead of the customary two years. Other winning new products have resulted from rapid development projects at Honeywell (thermostats), Ingersoll-Rand (air-powered grinders), Warner Electric (Clutch brakes) and Hewlett-Packard (computer printers).³⁰⁹

It would appear that the outlook for American industry is not quite as glum as many would make it out to be. American industry is competitive in a great many areas, and continues to dominate the marketplace in many product lines. And, as their undistinguished efforts at creating commercially viable software shows, the Japanese are *not* able to dominate any market that they wish, and Japan's economy is not without its own problems.

Many Americans seem mesmerized by Japan's postwar economic success, and can only focus on the impressive performance of the world-class Japanese kaisha which have come to dominate certain areas of the US consumer market. It's true that the

³⁰⁸Preston G. Smith and Donald G. Reinersten, "U.S. firms are finally getting up to speed," San Jose Mercury News (April 1, 1991): 3E.

³⁰⁹Ibid., 3E.

Japanese economy has significant clusters of competitive industries grouped around:

...transportation equipment and related machinery, office machines, entertainment and leisure (notably consumer electronics), steel and fabricated metal parts, electronic components and computing equipment, and optical-related products (including cameras and film). Japanese firms also have strong or emerging positions in printing equipment, telecommunications equipment (mostly hardware), ceramics-related products, household appliances, electrical goods, personal mechanical or electronic products such as pens, watches, and clocks, and a growing array of general business inputs such as fans, pumps, and tools.³¹⁰

But Japan, "...more so than perhaps any other nation, is a study in contrasts."³¹¹ As Michael Porter remarks:

On the one hand, it contains some of the most competitive firms and industries in the world, that have powered remarkable national economic progress. On the other hand, however, there are large portions of the Japanese economy that not only fail to measure up to the standards of the best worldwide competitors but fall far behind them. The continued existence of these sectors is both a reflection of the complicated balance of Japanese policy and a growing restraint to future Japanese prosperity.³¹²

Agriculture, the large construction sector, the poorly designed distribution and retailing structure, and the financial

³¹⁰Michael E. Porter, The Competitive Advantage of Nations (New York: Free Press, 1990), 394. Porter points out on the same page that "semiconductors and electronics technology unite a number of clusters. Japan's position in semiconductors grew out of earlier positions in consumer electronics and telecommunications. Office machines and computers emerged later out of the previous three."

³¹¹*Ibid.*, 394.

³¹²*Ibid.*, 394. Porter further states on page 420, that "Japan today is in many ways two economies. One economy is vibrantly competitive and characterized by rapid upgrading and productivity growth. Side by side is another economy in which there is little true competition and widespread inefficiency."

and professional services industries are just some of the areas where Japan has lagging productivity. Many of these industries are not competitive because they have been protected from international and domestic competition, or else have been sanctioned as "recession" and "rationalization" cartels by MITI.³¹³ In fact, "very few of the many industries in which such cartels have been allowed have ever subsequently achieved a significant international position."³¹⁴ These cartels are not the only problem areas however, because there are many other weak sectors in the Japanese economy. For example, Japan has:

...little national competitive advantage in forest products or related fields, chemicals and plastics (many of the positions Japan holds [in the world marketplace] are declining...), food and beverages, packaged consumer personal products such as detergents or toiletries, and defense-related goods. Japan is also weak internationally in services of nearly all types and in home furnishings. Positions in health care and textiles/apparel (except machinery) are also modest.³¹⁵

This is not the Japan that most Americans think about when they complain about Japan, Inc., and "the continued existence of these sectors is both a reflection of the complicated balance of Japanese policy and a growing constraint to future

³¹³See in Porter, p. 708, where he lists these industries as examples: petroleum and related products, aluminum smelting, tobacco, food, paper products, fibers, and bulk chemicals.

³¹⁴Ibid., 708.

³¹⁵Ibid., 394.

Japanese prosperity."³¹⁶ Just as certain sectors of domestic demand have fueled the highly successful export industries, certain other domestic demand conditions have worked in the opposite direction, actually retarding growth in a number of industries. For instance, the system of fragmented retail and wholesale channels used to distribute food and other consumer packaged goods in Japan has impeded the development of competitive advantage in those industries which have to actually work within that system; consequently, Japanese firms abroad have generally done poorly in the marketing of consumer packaged goods through supermarkets and other mass-retailing establishments because they have had so little experience in mass-marketing those types of goods in their own home market.³¹⁷

Surprisingly enough, even in the area of productivity the Japanese have significant problems. Those large sectors of the Japanese economy which perform poorly in comparison to their

³¹⁶Ibid., 394.

³¹⁷Ibid., 405. Porter gives another excellent example of why the Japanese are not competitive in all areas. He says that "in health care, the Japanese system is socialized and quite homogenous. Doctors all receive similar training, and there is central control over approved procedures and treatments. Hospitals have little reason to change. Japanese doctors are primarily compensated not for their time and services but through reimbursements for the drugs they prescribe. This makes Japanese per capita drug demand the highest in the world, but it is not quality demand from the perspective of international competition. Japan provides a poor environment for innovation in health-related fields. Except in medical equipment heavily based on electronics technology (such as ultrasound and CT scanners), Japan has a weak international position."

international counterparts, end up pulling down overall productivity. The end result is that "in the economy as a whole, average productivity is well behind such nations as the United States and Germany. In the manufacturing sector, one study estimates that Japan's average output per man hour was 32 percent less than the United States in 1985."³¹⁸

Michael Porter writes that there are other emerging factors which will also cause Japan economic problems in the future. Some of those that he mentions are:

1. "Rising incomes and a rapidly accumulating pool of wealth in Japan threaten to change the motivation of individuals. Many Japanese point to a declining willingness of young people to do factory work or make commitments to their company. Mid-career job mobility is rising. A recent survey of university graduates in science and engineering found that a declining percentage wanted careers in manufacturing, but the proportion wanting to go into finance, insurance, and real estate has doubled since 1986.";³¹⁹
2. "A new generation of managers is taking the helm in Japanese industry. They are replacing, in many cases, the founders and entrepreneurs who built up the companies after the war. The risk is that vision and institution building may be replaced by stewardship and conservatism.";³²⁰ and
3. "Companies may also find it easier to make money in the stock market, speculate in real estate, and buy compa-

³¹⁸Ibid., 708. Porter also says that "the drag of unproductive sectors is increasingly a constraint that rapid upgrading in internationally competitive sectors will be unable to overcome...Japan's overall rate of productivity growth has slowed. Japan's standard of living growth will eventually suffer."

³¹⁹Ibid., 709.

³²⁰Ibid., 709.

nies than create new products and processes. Indeed, a recent survey found that 55 percent of the 1,010 firms listed on the first section of the Tokyo stock exchange reported profits through what the Japanese call 'money games,' a record high. Such a shift will stunt productive investment and innovation."³²¹

Bill Emmott, former Tokyo bureau chief of The Economist, has written that "the idea of Japan as a superpower is based primarily on the country's huge exports of capital and on its sudden emergence as the world's largest net creditor."³²² This capital surplus in Japan has been generated by "...three forces: high savings, low domestic demand for those savings, and an excess of exports over imports. These three are not independent."³²³ And when these factors are given closer scrutiny than is usually afforded, it becomes apparent that Japan has just about reached an economic plateau and that the Japanese sun has already begun to set. Emmott contends that:

1. there is a emergence in Japan of a growing "consumer" class, which means that "new values and desires are seeping in through the younger generation in ways that are relevant for patterns of consumption and savings and that reflect other changes in the Japanese economy;"³²⁴

³²¹Ibid., 709.

³²²Bill Emmott, The Sun Also Sets: The Limits to Japan's Economic Power (New York: Random House, 1989), 18.

³²³Ibid., 244.

³²⁴Emmott, 38. On the next page, Emmott says that "some of this can be measured in figures. For instance, a basic Japanese value used to be that it was bad to borrow. Better to balance your books; better still to save. In 1983, there were only 40 million credit cards outstanding in Japan, or one for every three Japanese. By 1987 that had grown to 110 million, or nearly one each; that is well below buy-now-pay-later America and

2. the development of a "wealthy" class in Japan means that "the old, austere homogeneity of Japanese life is breaking down;"³²⁵
3. there is an increasing worry in Japan that the future aging of Japan's population "might sap the will to work," with younger Japanese workers "...coughing up more and more of their pay to social security premiums to support pensioners and other nonworking social security recipients;"³²⁶ and
4. there has been a big difference in "...Japanese finance in recent years....," and that is the appearance of "...vast quantities of money looking for things to buy and invest...."³²⁷

Britain, but is roughly in line with West Germany and is still growing. Consumers have begun to borrow."

³²⁵Ibid., 73. Emmott says that "to an economist, this arrival of a new class is important because it implies not only a change in consumption habits but also a widening gap between rich and poor. Gradually, Japan's egalitarian, meritocratic society has become less equal and less based purely on merit because of the high cost of education: The more you pay even for a kindergarten, the more likely your child is to get into the right schools and hence the best jobs."

³²⁶Ibid., 86. See in Naohiro Yashiro, 20-21, where Yashiro points out some of the other ramifications of this: "Japan's population is aging at a faster pace than that of any other industrial nation. This trend has sweeping ramifications inasmuch as job assignments, income levels, and social status are all closely linked with age in Japan. People aged 65 or over made up only 9% of the population in 1980, but that figure is expected to swell to 15% by the year 2000. Over the same period the share of workers aged 25 or under will shrink from 13% to 10% of the population. The graying process will feature an increasing percentage of older workers in the 1990s and a growing number of pension beneficiaries in the early decades of the twenty-first century."

³²⁷Ibid., 94. Here the problem is that "...unless there is a correspondingly large or expanding supply of investable assets, is that prices rise. Demand rise faster than supply of things to buy. This is what happened in the Tokyo property and stock markets." This also explains the statistics in recent years which have shown the Japanese to hold such a commanding position in many areas of finance. As Emmott observes, however, "in both markets, a speculative bubble has developed, where people and institutions buy land, buildings, or stock well beyond what they believe is these objects' basic value."

This last item has resulted in significant problems in the real estate and financial markets as well. Real estate values have been one of the most important props upon which Japan's economic miracle has been built. Although difficult to believe, "all the land--excluding buildings--in Japan, which is roughly the size of Montana, is said to be worth \$20 trillion, or more than double the value of all the land in North America."³²⁸ This clearly shows a market which has been inflated beyond any reasonable hope of maintaining its current sky-high value. "It's only natural that this bubble at some point goes bust," says Kazuo Nukazawa, managing director of Keidanren, Japan's most powerful trade association. "There have been bubbles in other places at other times, in property and in stocks, and they've always gone bust. So will this one."³²⁹

This potential weakness in the real estate market could have explosive consequences for Japanese banks as well. Many Japanese banks have a substantial stake in the real estate market and any large decline in real estate values could be catastrophic for them. The Japanese are beginning to realize

³²⁸Lewis M. Simons, "Japanese fear the Big One---the big real estate crash," San Jose Mercury News, 28 October 1990, 1A.

³²⁹Ibid., 1A. Simons comments, for example, that "commercial property in the glittering Ginza business district goes for \$33,777 per square foot. Even in the peak of the late 1980s, prime commercial real estate in San Francisco was priced at only half that rate."

that "bad real estate loans could devastate some Japanese banks and secondary financial institutions in the 1990s just as they did American banks and savings and loans in the 1980s."³³⁰ An example would be Sumitomo Bank, the world's third largest bank, which has 460 billion in property loans just in Japan--about 40 percent of its total domestic loans. Moody's Investor Services Inc. recently lowered its credit ratings on several prominent Japanese banks--including Dai-ichi Kangyo, the largest in the world,³³¹ because it was concerned about the level of exposure that banks like Sumitomo have in this inflated real estate market.

But the shaky real estate market is only one of the problems currently facing Japanese banks. Because of differences in banking regulations, Japanese banks, unlike their American counterparts, are allowed to invest in the stock market. During a soaring market, the amount of paper profit that can be realized is tremendous, and the sky-rocketing Japanese market of the 1980s generated billions of dollars in capital for Japanese banks, paper capital which in turn greatly boosted the banks' lending capacity.³³² As the Japanese stock market collapse in 1990 showed, however, this

³³⁰James J. Mitchell, "Japan bank's squeeze play," San Jose Mercury News, 16 December 1990, 1C.

³³¹Simons, 1A.

³³²Mitchell, 1C.

can quickly change the amount of capital available to banks in a negative manner as well. And, ultimately, it is only money is that defines Japan's current power.

C. TRANSLATING ECONOMIC POWER INTO LEADERSHIP

The Wall Street Journal has given a generalized view of how Japan became the economic powerhouse it is today:

The Japanese miracle is well known. A country that only a generation ago was disparaged as a producer of tinny transistor radios has turned itself into one of the wealthiest and most technologically advanced nations on earth, a transformation accomplished through sheer hard work and a social organization so cohesive and centrally managed that an Italian journalist here laughingly calls Japan "the only communist nation that works."

Unburdened by defense spending [italics mine] or, until recently, a consumer culture, Japanese saved and invested in industry. With methodical precision and market perceptivity, Japan began industry by industry to take leadership, moving rapidly from heavy industries on to high technology. Now, finally, the yen has replaced the dollar as the symbol of financial strength, enabling Japan to go on an unprecedented global buying binge.³³³

But, is this the beginnings of a "Japanese century,"? And does Japan threaten American national security with its new economic power? It would certainly seem that the Japanese are well placed to play a commanding role in a world in which economic power is beginning to eclipse the importance of military power. Despite its weak handling of the Gulf crisis,

³³³Karen Elliott House, "The '90s & Beyond: For All Its Difficulties, U.S. Stands to Retain Its Global Leadership," Wall Street Journal 23 January 1989, sec. A1, p. 6.

there is little doubt in many corners that Japan will seek to take on an expanded role within the international community sometime in the future. The real question to consider though, is just how much of an expanded role will the Japanese be able, or willing, to take on. As Prime Minister Toshiki Kaifu, in his April 30, 1990 address to the Indian Parliament, said: "Japan can and must play a positive role by putting to effective use its economic and technological capabilities and its past experience."³³⁴ But that may prove difficult for Japan.

Yoichi Shinkai seems to echo Paul Kennedy's thesis when he writes the following, but he comes to a *different* conclusion about the relationship between economic power and hegemony:

In the hegemonies of Britain and the United States, economic leadership was buttressed by unquestioned dominance in technology and the supply of capital. Technology holds the key to military and export potential, and capital can influence other nations' growth. Britain's long-term investments powered the growth of the United States and held the British Commonwealth together: America's capital funded the Marshall Plan, putting Western Europe back on its feet after World War II. *The same correlations between hegemony and economic power will not necessarily continue to hold [italics mine].* In view of this past experience, however, other countries are understandably nervous about the implications of Japan's money and technology....³³⁵

A recent series of articles in the Wall Street Journal examined the prospects for Japan (among others) assuming a world leadership role. The Journal undertook a survey of

³³⁴G.W. Choudhury, "The Leaders in Economic Aid," Japan Quarterly 37, (July-September 1990), 334.

³³⁵Shinkai, 25.

several hundred leaders and laymen in the United States, Japan, Europe, China, and the Soviet Union in order to frame a clear picture of world leadership in the next century. As Karen Elliot House writes: "the picture that emerges is clear, if surprising: whether America relishes the role or not, it is the preeminent power in the world today and will remain so for at least into the next generation--and probably longer."³³⁶

A preliminary perusal of the world's economic balance sheet would certainly give pause to such a prognosis, because it appears that Japan is increasing its national wealth in both absolute and relative terms. Japanese trade surpluses remain huge, its financial clout seems to be immense, and its technological edge in many fields of research and manufacturing is growing. It seems to many Americans that Herman Kahn was amazingly prescient: Japan's ascendancy to Great Power status seems assured. But, House supports her contention that the US will remain preeminent with this pungent analysis:

Power is not simply money, market size, might or masses. Power--the elements that enable a nation to influence events in a fashion favorable to its own interests--derives from a combination of military, political, economic and cultural clout, including the intangibles that make a nation admired and respected. A close look at America's mix of strengths compared with those of other pretenders to power [like Japan] indicates why America should have little competition for pre-eminence in the 1990s and beyond. "We have a winning

³³⁶House, "The '90s & Beyond: For All Its Difficulties, U.S. Stands to Retain Its Global Leadership," 6. House's analysis was done before the Gulf crisis but sounds remarkably similar to Krauthammer's contention that the US has entered the "unipolar moment."

hand," says Former Secretary of State George Shultz. "We just have to play it."³³⁷

And there are many who believe we *will* play it. The United States remains the world's largest producer of goods, and a recent study cited in the Wall Street Journal projected that America's share of total global output will rise to nearly 30% by 2010 and remain about twice the size of Japan's total output.³³⁸ Human resources are a critical element of economic strength, and it is here too that the long-term advantage lies with the United States. America is being constantly replenished by large new waves of immigrants--bring with them fresh energy and new talents--just those characteristics needed to maintain national vitality and productivity. Japan, meanwhile, severely restricts immigration in order to preserve its racial purity. This restriction on immigration, coupled with Japan's rapidly aging population, means that the labor pool in Japan is shrinking even as its elderly population increases.

Even the large concern over America's budget deficit needs to be put into some kind of perspective. House writes that "the budget deficit is twice as large as it ever was in the Ford or Carter years. Yet the U.S. economy has grown so much that as a percentage of GNP, the deficit is roughly equivalent

³³⁷House, "The '90s & Beyond: For All Its Difficulties, U.S. Stands to Retain Its Global Leadership," 6.

³³⁸Ibid., 6.

to the 2.8% in Mr. Carter's last year, and is half the 1983 peak. A nation, like an individual, can afford more debt if its wealth is growing."³³⁹ There are some skeptics though who continue to insist that the important point to consider is that the American economy has been shrinking relative to the Japanese economy. Once again the statistics can be deceiving.

Japan's economy did grow tremendously fast relative to the US throughout the 1960s and 1970s; but, in the 1980s, as the Japanese economy matured, its blistering pace of expansion slowed dramatically. During the last decade, Japan's growth rate was about the same as that of the American economy, as both economies expanded at the similar rate of about 3-4 percent a year. Masaru Tamamoto argues that even though Japan is industrially and financially powerful:

...as important as such measures of international power may be, more important still is how a nation thinks about itself and about its place in the world. What has been underplayed in American speculations about the impending rise of Japan (except, of course, by those who want to deny American decline) is the question of Japan's political will. Although it eludes precise measurement, political will is an essential ingredient in the making of a great power, for it marks the limits of a nation's power. And *in postwar Japan, the political will to international power has been noticeably absent* [italics mine].³⁴⁰

This critical analysis of Japanese political will would seem to be fundamentally correct as events in the Gulf have

³³⁹Ibid., A8.

³⁴⁰Masaru Tamamoto, "Japan's Search For a World Role," World Policy Journal 7, (Summer 1990): 494.

proved. In its abdication of any role beyond financial support, Japan only reinforced the perception held by the rest of the world that:

Japan stands for no political ideal beyond its own economic self-interest. It can export Mazdas, microchips and even management techniques, but none of this amounts to leadership.³⁴¹

Clearly, the Japanese are not the invincible economic power many Americans think they are, and there are just as many corresponding American strengths as there are Japanese weaknesses. One critical area, however, where they might become a threat to American national security is in their pursuit of high-technology dominance.

³⁴¹House, "The '90s & Beyond: Though Rich, Japan Is Poor in Many Elements Of Global Leadership," 1.

V. THE REAL "WAR" BETWEEN THE US AND JAPAN: THE BATTLE FOR TECHNOLOGY

The White House's 1990 policy statement, National Security Strategy of the United States, contains a section entitled "Relating Means to Ends: Our Economic Agenda." In this section, there is a short paragraph that relates the critical importance of technology to the United States--it reads, in part:

Our economic and military strength rests on our technological superiority, not sheer manufacturing might. The United States remains in the forefront in the development of new technologies, but American enterprises must respond more quickly in their exploitation of new technologies if they are to maintain their competitiveness in both domestic and foreign markets. The loss of advanced production capabilities in key industries could place our manufacturing base in jeopardy.³⁴²

This loss of advanced production capability is already occurring, and with it, there is not only a declining ability to compete internationally in certain advanced technological fields, there is also an increased threat to American defense. The report issued by The Commission On Integrated Long-Term Strategy, entitled Discriminate Deterrence, and often referred to as the Ikle and Wohlstetter Report, stated that "although U.S. strategy has depended heavily on our technological superiority since World War II, American technology is less

³⁴²The White House, National Security Strategy of the United States, March 1990, 22.

superior than it used to be,"³⁴³ a rather euphemistic way of saying that America's lead is declining. Further on in the report, the authors, in a slightly more direct manner, write that "the 'rusting' of the technology base in the past couple of decades is a deeply disturbing trend. The United States badly needs an aggressive effort, informed by a long-term strategy, to strengthen science and technology programs."³⁴⁴ These statements make it very clear that the United States must concern itself with not only maintaining its technological strength, but also addressing any further threats to it.

The development and control of high technology is not only a critical factor in spurring economic development, it is also a strategic element of maintaining national security. A US Department of Commerce Report in 1983 perceived a dual role for the United States, one in which the US acted "...both as the principal guarantor of Western security and as a leading defender of the economic system of the free world. In this context, U.S. technological preeminence and high technology industries take on a strategic importance, and the maintenance and protection of a broad technological base is a vital

³⁴³The Commission On Integrated Long-Term Strategy, Discriminate Deterrence, January 1988: 45.

³⁴⁴*Ibid.*, 55.

element of national security policy."³⁴⁵ In line with this thinking, the United States took a "...variety of initiatives to protect and to control the outflow of high technology" during the Cold War "...in order to stop Soviet acquisition of advanced Western technology which supposedly was helping the USSR to overtake the West militarily."³⁴⁶

Now that the Cold War is over, the United States must not forget the inherent danger in falling behind other nations in the development of new technologies. While the international "battlefield" may be shifting from that of military confrontation to one of international economic competitiveness, the underlying fact remains that American national security still demands a firm underpinning of high-technology in both the defense and civilian sectors. As Hanns-D. Jacobsen has pointed out, "advanced technology--and this is mostly technology which can have both civilian and military applications--plays a more and more increasing role in the foreign economic relations of the industrialized countries and has already become a decisive factor in their international competitiveness."³⁴⁷ In fact,

³⁴⁵U.S. Department of Commerce, An Assessment of U.S. Competitiveness in High Technology Industries (Washington, D.C.: US Government Printing Office, 1983), 4.

³⁴⁶Hanns-D. Jacobsen, "Security Implications of High Technology Cooperation Between the U.S.A. and the Other Industrialized Countries," in Carl-Ludwig Holtfrerich, ed., Economic and Strategic Issues in U.S. Foreign Policy (Berlin: Walter de Gruyter, 1989), 195.

³⁴⁷*Ibid.*, 199.

even before the Soviet threat was effectively removed, the United States found itself already engaged in fierce technological competition with its Cold War ally, Japan.

Noted Japan expert, Edward Olsen, in his well-reasoned book U.S.-Japan Strategic Reciprocity, acknowledges that there is a "...tremendously competitive high-technology struggle being waged between the United States and Japan," and that "Americans should be concerned about this challenge for economic reasons."³⁴⁸ He goes on to remark that "more significantly, because of the importance of high-technology industries to U.S. defense capabilities, there are profound strategic reasons for concern."³⁴⁹ While the Japanese are currently American allies, and are likely to remain so into the near future, this high-tech struggle is still a potential threat to American interests.

It is a high-tech challenge which has developed primarily over the last decade, for while the United States waged the final phases of the Cold War, it "...skew[ed] its R & D resources towards defense projects and basic research," while nations like Japan devoted its research and development

³⁴⁸Edward A. Olsen, U.S.-Japan Strategic Reciprocity: A Neo-Internationalist View (Stanford: Hoover Institution Press, 1985), 68.

³⁴⁹*Ibid.*, 69.

efforts almost exclusively to the commercial sector.³⁵⁰ Rachel McCulloch says "these funding patterns help to explain why the United States has been able to maintain its lead in most areas of military technology and basic science, but has lost ground to other nations, especially Japan, in translating U.S. scientific advances into commercial gains."³⁵¹ These patterns also illustrate the fundamental dislocation that can occur in national security when defense spending on research and development results in lost opportunities for commercializing other emerging technologies--for on one hand, national defense is enhanced by the high-technology weapons developed, but on the other hand, the economic strength of the economy it defends becomes increasingly weaker as a result of those missed commercial opportunities. As Pat Choate observes: "America's declining economic position is intimately tied to its loss of leadership in *commercial* high-technology products and processes [*italics mine*]."³⁵²

This economic shortcoming could have drastic effects for American high-technology industries in the coming decades as

³⁵⁰Rachel McCulloch, "U.S. International Competitiveness in a Changing Global Economy," in Carl-Ludwig Holtfrerich, ed., Economic and Strategic Issues in U.S. Foreign Policy (Berlin: Walter de Gruyter, 1989), 9-10.

³⁵¹*Ibid.*, 10.

³⁵²Pat Choate, The High-Flex Society: Shaping America's Economic Future (New York: Alfred A. Knopf, 1988), 185.

Japanese firms feverously expand their current technological advantages and begin to make serious inroads into areas of traditional American dominance. The tremendous effort put into defense-related research and development is simply not enough in itself to ensure American national security. America needs to be competitive in all the high-technologies of tomorrow if it is to retain its vibrant and growing economy--an absolute necessity for true security, as the Japanese themselves have acknowledged. The emphasis on purely defense-related technology helped the US defeat the Soviet Union, but that same emphasis could lead to defeat in the new "war" between the US and Japan--a war which is actually a fierce commercial struggle for technological dominance. It is a commonplace observation that the two OECD countries with relatively small military budgets, Japan and Germany, are the most successful industrial economies. A study quoted in The Cuomo Commission Report observed that "just as the Pentagon is contracting with American manufacturers to pursue the technological breakthroughs necessary to produce such exotic armaments as stealth bombers and laser beam defense shields, other nation's manufacturers are aggressively pursuing the same breakthroughs with commercial applications specifically in mind."³⁵³ This

³⁵³Jay Stowsky, Beating Our Plowshares into Doubled-Edged Swords: The Impact of Pentagon Policies on the Commercialization of Advanced Technologies, Working Paper 17, Berkeley Roundtable on the International Economy, April 1986, p. 2, as quoted in Lewis B. Kaden, Chairman of The

is where the really important battles of the future will be fought--all along the high-technology frontier where the very nature of national competitiveness will be at stake.

A. TECHNOLOGY AS A DRIVING FACTOR FOR ECONOMIC GROWTH

Franklin Root, an economics professor at the University of Pennsylvania, has defined technology "...as the accumulated know-ledge, skills, and techniques that are applied to the production of goods and services."³⁵⁴ It is a rather dry academic definition, but one which is perfectly servicable for our purposes. When technology is viewed in this rather generalized way, it becomes clear that it has been an important factor in American economic progress; in fact, "throughout [U.S.] history, technological progress has been the driving force behind most of the productivity gains made in this country."³⁵⁵ Productivity is what ultimately determines a nation's standard of living, so if technology improves productivity, it follows that the American standard of living is dependent upon the judicious application of new technology to industry. Supporting this view, Alfred Kahn remarks that

Cuomo Commission on Trade and Competitiveness, The Cuomo Commission Report (New York: Simon & Schuster, Inc., 1988), 120.

³⁵⁴Franklin R. Root, International Trade and Investment (Cincinnati: South-Western Publishing Co., 1990), 118.

³⁵⁵Steven Schlossstein, The End of the American Century (New York: Congdon & Weed, Inc., 1989), 92.

"the most powerful engine of productivity advance is technological progress, generated in large measure by expenditures on research and development and embodied in improved capital goods and managerial techniques...."³⁵⁶

The causal relationship between the careful application of a new technology and the resulting increase in productivity is inescapable. During the 1980s for example, "technology...helped boost labor productivity in high-tech industries almost six times faster than in [American] business as a whole."³⁵⁷ Recognizing this enormous potential, George A. Keyworth II, President Reagan's science advisor, began declaring in 1982 that "basic research is America's ace-in-the-hole," and urged Congress to support proposed increases in US research budgets.³⁵⁸ These research budgets, with their "...emphasis on the physical sciences and engineering... [were thought necessary because of the results]...of a year-long study in the White House of 'the competitiveness of those industries that either produce high technology products or depend on high technology for manufacture....'"³⁵⁹ The result of this study

³⁵⁶Steven E. Rhoads, The Economist's View of the World: Government, Markets, and Public Policy (Cambridge: Cambridge University Press, 1985), 93.

³⁵⁷Choate, The High-Flex Society, 106.

³⁵⁸David Dickson, The New Politics of Science (New York: Pantheon Books, 1984), 17.

³⁵⁹*Ibid.*, 17.

and many others showed that "although no one can give precise figures, it is now generally accepted that research and development in general--and basic research in particular--make a fundamental contribution to the expansion of capital, in particular by being used to produce new products and as the basis of new production processes."³⁶⁰

Economists like Edwin Mansfield have "...demonstrated how those U.S. industries that spend relatively high amounts of money on research and development are also the leading industries in manufactured exports, foreign direct investment, and licensing...."³⁶¹ This correlation between technology and economic growth is sometimes difficult to rigorously quantify though, and, as David Dickson, a journalist for Science magazine, explains:

[Although] economists [have] differed substantially on the precise size of the contribution of technical change--and hence indirectly of R&D spending--to productivity growth....there [has been] little disagreement that the most dynamic sectors of the U.S. economy [in the 1970s and 1980s] were those, such as microelectronics and pharmaceuticals, in which spending on research had been relatively high. Two economists with Data Resources Inc. have estimated that in the...postwar decades, high technology industries produced a compound growth of 6.7 percent, compared with a 2.6 percent expansion in the low technology industries. Other statistics demonstrate how science-based industries have come to play a central role

³⁶⁰Ibid., 33.

³⁶¹Ibid., 33.

in maintaining a competitive position for the U.S. in international trade.³⁶²

The Japanese have long understood the importance of integrating technology into their industrial economy, and in their bid to gain a competitive edge, they "...scan the world for important technologies, learn them, know the patent literature, know the technical literature...turn over every stone."³⁶³ They also buy it in large quantities. Technology transfer from the US to Japan is big business: in 1989 alone, "U.S. companies took in \$2.5 billion selling technology to the Japanese...."³⁶⁴ This preoccupation with accumulating foreign technology fits in very well with the Japanese concept of "comprehensive national security," for as Robert Barnett points out, the Japanese fervently believe that knowledge is power. He writes that:

An underlying assumption in Japanese thinking about national interest and effectiveness is that the possession of voluminous, accurate, and usable information is a paramount strategic asset. Japan's educational system, the sophistication of its knowledgeable business community, Japan's intense attention to potentials of technology and to scrupulous quality control, and Japan's avid interest in cultural and technological borrowings worldwide--start

³⁶²Ibid., 32.

³⁶³William Taylor, "The Business of Innovation: An Interview with Paul Cook," Harvard Business Review (March-April 1990): 99.

³⁶⁴Susan Moffat, "Picking Japan's Research Brains," Fortune 123, (March 25, 1991): 88.

ing with China over a thousand years ago--confirm commitment to the idea that knowledge is power.³⁶⁵

This point of view is supported very strongly by Barbara Buell, a Business Week reporter, who remarks that the Japanese have always been alert to the advantages of turning technical knowledge into commercial success, and that:

At the heart of [Japan's] stunning [economic] success is a voracious appetite for research and technology from overseas--the same strategy America used when Europe was preeminent early in this century. Japan's scientists religiously attend academic conferences in the U.S. and meticulously study and translate research papers. Others tour U.S. laboratories, factories, and semiconductor plants to glean the best ideas. And with increasing frequency, the Japanese are setting up labs in the U.S. and sponsoring university research.³⁶⁶

Because of their pursuit of American technology, the Japanese have often been denigrated as a nation of "copycats." Even many Japanese themselves think this sobriquet accurate. Molecular biologist Itaru Watanabe, professor emeritus at Keio University, remarks that most Japanese companies have yet to create anything new, and that many Japanese companies would be "...helpless without a steady stream of technical papers from the U.S."³⁶⁷ But that is really beside the point, for as

³⁶⁵Barnett, 10-11.

³⁶⁶Barbara Buell, Neil Gross, Larry Armstrong and Gary McWilliams, "A Shopping Spree In The U.S.," Business Week (Innovation 1990): 86.

³⁶⁷Ibid., 86.

Gerald Meier points out:

The central issue of technological development...is not acquiring the capability to invent products and processes. It is acquiring the ability to use existing technology--to produce more efficiently, to establish better production facilities, and to use the experience gained in production and investment to adapt and improve the technology in use. The main way of doing this is to build on what can be obtained from abroad while developing local capabilities in areas where it makes the most sense.³⁶⁸

While the United States was the undisputed world leader in technological innovation after the Second World War, this began to change as early as the 1960s, when the Japanese began to enter the US market with improved Japanese-produced consumer goods based directly the achievements of American science and technology. For decades, "...Japan has come to the U.S., bought or borrowed the best of America's technology, and sold it back to the U.S. as finished products."³⁶⁹ Root points out that "technical advances in production are a major source of growth in contemporary economics,"³⁷⁰ and, as many American industries have belatedly found out:

Technological leadership is constantly threatened...by innovations elsewhere; nations must run hard to avoid falling behind. In the nineteenth century, comparative advantages changed slowly over a generation or more; in our time, a country may enjoy a comparative advantage in a product for only a few years before technical diffusion

³⁶⁸Gerald M. Meier, Leading Issues in Economic Development (New York: Oxford University Press, 1989), 272.

³⁶⁹Moffat, 84.

³⁷⁰Root, 120.

and imitation or new technical discoveries wipe it out.³⁷¹

This contention is strongly supported by Robert Gilpin, who remarks that "in the modern world the centers of technological innovation have experienced several significant mutations, although innovation, on the whole, is a continuous and incremental process, key innovations in industrial methods and technological products 'tend to cluster in time and space'...."³⁷² This has significant implications for the United States, for the Japanese are already formidable competitors, and the structure of their society and economy seems well-suited for developing and nurturing the high-technology industries of the future. Michael Porter makes the argument that "one competitive industry helps to create another in a mutually reinforcing process." His theory that nations develop competitive *clusters* of industries based on certain determinants of national competitive advantage clearly shows the interlocking relationships of high-technology industries. When he examined why "...certain companies based in certain nations [are] capable of consistent innovation," he came up with "...four broad attributes of a nation, attributes

³⁷¹Ibid., 122.

³⁷²Robert Gilpin, War & Change in World Politics (Cambridge: Cambridge University Press, 1981), 181.

that individually and as a system constitute the diamond of national advantage, the playing field that each nation establishes and operates for its industries."³⁷³ These four key attributes that he lists are:

1. *Factor Conditions*. The nation's position in factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry;
2. *Demand Conditions*. The nature of home-market demand for the industry's product or service;
3. *Related and Supporting Industries*. The presence or absence in the nation of supplier industries and other related industries that are internationally competitive; and
4. *Firm Strategy, Structure, and Rivalry*. The conditions in the nation governing how companies are created, organized, and managed, as well as the nature of domestic rivalry.³⁷⁴

These are all factors which are very prevalent in Japan within the existing high-technology industries. The keiretsu, with their tightly interlocking relationships among diverse companies within their groups, are well-placed to take advantage of this competitive diamond. Their workforce comes from a "nation of engineers," and their kaisha ferociously compete in a domestic market that is admittedly "technology-crazy." In addition, MITI "...prods companies into investing in various R&D programs by organizing research consortia, providing funding, and engaging in discussions

³⁷³Michael E. Porter, "The Competitive Advantage of Nations," Harvard Business Review (March-April 1990): 77.

³⁷⁴*Ibid.*, 77.

with the [high-technology] companies."³⁷⁵ Truly, this is fertile ground for establishing high-tech competitive clusters, and it is very likely that "Japan's preoccupation with manufacturing quality can only become more significant as science and technology coalesce."³⁷⁶

The influence of MITI is significant in this process. Porter also examines how state intervention affects these competitive factors, and he maintains that a "government's proper role is as a catalyst and challenger; it is to encourage--or even push--companies to raise their aspirations and move to higher levels of competitive performance, even though this process may be inherently unpleasant and difficult."³⁷⁷ He then goes on to say that "...Japan's government, at its best, understands this role better than anyone--including the point that nations pass through stages of competitive development and that government's appropriate role shifts as the economy progresses [*italics mine*]."³⁷⁸ This is of major importance because "...by stimulating early demand for advanced products, confronting industries with the need to pioneer frontier technology through symbolic cooperative projects,

³⁷⁵Magaziner and Patinkin, 366.

³⁷⁶Neil Gross and Otis Port, "Hustling To Catch Up In Science," Business Week (Innovation 1990): 82.

³⁷⁷Porter, "The Competitive Advantage of Nations," 86.

³⁷⁸*Ibid.*, 86.

establishing prizes that reward quality, and pursuing other policies that magnify the forces of the diamond, the Japanese government accelerates the pace of innovation."³⁷⁹

Porter gives an excellent example of how this reinforcing process works within the high-technology industries of Japan. He points out that:

Japan's strength in consumer electronics, for example, drove its success in semiconductors toward the memory chips and integrated circuits these products use. Japanese strength in laptop computers, which contrasts to limited success in other segments, reflects the base of strength in other compact, portable products and leading expertise in liquid-crystal display gained in the calculator and watch industries. Once a cluster forms, the whole group of industries becomes mutually supporting. Benefits flow forward, backward, and horizontally. Aggressive rivalry in one industry spreads to others in the cluster, through spin-offs, through the exercise of bargaining power, and through diversification by established companies. Entry from other industries within the cluster spurs upgrading by stimulating diversity in R&D approaches and facilitating the introduction of new strategies and skills. Through the conduits of suppliers or customers who have contact with multiple competitors, information flows freely and innovations diffuse rapidly. Interconnections within the cluster, often unanticipated, lead to perceptions of new ways of competing and new opportunities. The cluster becomes a vehicle for maintaining a diversity and overcoming the inward focus, inertia, inflexibility, and accommodation among rivals that slows or blocks competitive upgrading and new entry.³⁸⁰

This is not just an academic economic theory that is interesting for how it explains current competitiveness, because "the tendency for the loci of technological innovations to shift from one economy to another is an important concern of of contem-

³⁷⁹Ibid., 86.

³⁸⁰Ibid., 86.

porary scholarship, a concern stimulated by the relative decline in American innovation...."³⁸¹ The discovery and application of advanced technologies will help determine which national economies will be competitive in the 21st century. Maintaining international competitiveness is a crucial factor in determining the health of the American economy, and if a healthy economy is the foundation of national security, it then becomes apparent that this battle over technology is a critical one. The United States faces a formidable challenge from Japan already, and if it allows its lead in high-technology to continue to fade, it runs the very real risk of being shut out of the advanced technologies of the future--technologies that will be clustered in Japan.

B. THE MILITARY IMPORTANCE OF TECHNOLOGY

The recent war in the Gulf demonstrated with startling effect the efficacy of high-tech weaponry. For many Americans, it was their first exposure to those "...deadly sleek appliances resting in what General Colin Powell calls his 'toolbox' of war implements--machines capable of astonishing feats, bearing equally astonishing pricetags."³⁸² As CNN broadcast live pictures of the Gulf War back to the United States, the America public suddenly "...discovered its arsenal--the damndest array of stealthy, micro-

³⁸¹Gilpin, 182.

³⁸²John Huey and Nancy J. Perry, "The Future of Arms," Fortune 123, (February 25, 1991): 34.

processed, laser-guided, thermal-imaged, electromagnetically jamming, satellite-vectored weaponry ever imagined."³⁸³ Americans, and indeed the entire world, marveled at the sight of Tomahawk missiles cruising at a hundred feet above the streets of Baghdad, leisurely banking at selected street corners as they proceeded through the city on their way to strategic targets. Stunning cockpit films of precision-guided bombs smashing their way through the skylights of selected Iraqi government buildings only added to the very correct perception that this war was technologically different from the ones that had preceded it. When the war was finally over, it was clear that America's multi-billion dollar investment in high-tech weaponry over the past decades had paid handsome dividends, for the Iraqi military had been smashed without the need for American ground troops to engage in the same sort of grinding combat that had distinguished the low-tech battles of the long and bloody Iran-Iraq War. The spectacular success of such high-tech systems as the the E-3 AWACS, the Patriot air-defense batteries, and stand-off weapons like the Tomahawk and Hellfire missiles, explosively pointed out the revolution in warfare that can occur as the result of technological advances.

Herman Kahn, writing in 1960, stated that the United States was even at that time fully "...three technological revolutions away

³⁸³Ibid., 34.

from World War II."³⁸⁴ He further stated that "any attempts to apply the concepts and rules of common sense derived from that experience run the grave risk of being outmoded as some American Civil War concepts would have been in World War II."³⁸⁵ As Kahn recognized, the pace of technology has increased significantly since the end of the Second World War, and there are few American policy-makers who would disagree "...that the Soviets are correct in their assessment that the advent of new technologies will revolutionize war, and not merely make current forces marginally better at what they do."³⁸⁶ Indeed, it is clear today that "the accelerated rate of military technological developments makes each succeeding war in many ways radically different from the previous ones."³⁸⁷ This historical fact points out the importance of attempting to understand what impact future technological advances will have on current weapons and strategy; for there is little doubt that "no dimension of warfare has escaped the influence of technological development."³⁸⁸ The exact nature of that influence

³⁸⁴Herman Kahn, "The Arms Race and Its Hazards," Daedalus 89, (Fall 1960): 765.

³⁸⁵*Ibid.*, 765.

³⁸⁶Report of the Working Group on the Future Security Environment, The Future Security Environment (Washington, D.C.: The US Government Printing Office, October 1988), 26.

³⁸⁷Michael I. Handel, War, Strategy and Intelligence (London: Frank Cass and Company Ltd., 1989), 21.

³⁸⁸*Ibid.*, 19.

is often debated, but most military analysts generally believe that in combat "...technological innovations can...have an overwhelming effect in two circumstances: When radically different technologies are pitted against one another, and when one-on-one duels reveals the slight but decisive advantages of similar technologies."³⁸⁹ The distinction expressed between the two circumstances is only one of approach however, not of validity, for either of these technological deficiencies ultimately results in defeat during war, illustrating very dramatically the dangers of entering into any conflict with a technological disadvantage *vis-a-vis* the enemy. In order to maintain that very necessary technological lead, American military funding of R&D falls into two distinct categories: one which stresses 'incremental' changes of existing weapons systems and a second which introduces totally different, 'nontraditional' weapons. The first category fits:

...within the current paradigm of the so-called 'military-industrial complex;' that is, within the institutions, organizations, force structures, historical equipment, military tactics, and industrial R&D and production facilities. These technological advances usually are aimed at the previously stated 'mission needs,' or can be easily used to justify new mission needs because they fit within the existing paradigm.³⁹⁰

The second category emphasizes radical change and is by far the

³⁸⁹Steven Canby, "Can High Tech Save NATO," in Chapter V. Implications of New Weapons Technologies in Shai Feldman, ed., Technology and Strategy: Future Trends (Jerusalem: The Jerusalem Post, 1989), 66.

³⁹⁰Jacques Gansler, "The US Technology Base: Problems And Prospects," in Franklin D. Margiotta and Ralph Sanders, eds., Technology, Strategy and National Security (Washington, D.C.: National Defense University Press, 1985), 109-110.

more significant of the two. It is the strategic opportunity found within:

...the 'nontraditional' change introduced by some totally new type of weapon system that advanced technology offers--but which breaks down some part of the traditional paradigm of the military-industrial complex. In this case, advanced technology is defining *possible* new military strategies, equipment, applications, or institutional structures.³⁹¹

The revolutionary impact that "nontraditional" technology can have on warfare presents the possibility of some new and very frightening weapons making their appearance on the battlefield sometime in the near future: weapons made even more frightening when one contemplates their exclusive possession by an enemy hostile to the United States. John Garnett comments that "already there is speculation about the possibility of new infrasonic weapons, which are based on certain sound frequencies, ethnic weapons, which distinguish between targets on the basis of their racial or genetic makeup, psychotropic weapons, which are based on drugs calculated to produce hallucinatory effects and other mental disturbances, and high-energy laser weapons."³⁹² For those who question the feasibility of those types of weapons ever being developed and fielded, one only has to consider that in the span of

³⁹¹Ibid., 110.

³⁹²John Garnett, "Technology and Strategy," Contemporary Strategy Vol. I, Theories and Concepts, eds., John Baylis, Ken Booth, John Garnett and Phil Williams, second edition: revised and enlarged, (New York: Holmes & Meier, 1987), 94.

little more than eighty years the world has gone from "horse-drawn guns to space-based lasers."³⁹³

With the announcement of the Strategic Defense Initiative (SDI) by President Reagan early in his first term, high-technology weapon development has focused increasingly upon space-borne weaponry and sensors. Barry Smirnoff of the National Defense University has pointed out that:

Infrared and radar ocean/air surveillance satellites that may become operational by the early 1990s could place Soviet [or other] surface ships and (high altitude) aircraft at risk from missiles and other long-range weapons. First generation space laser weapon systems that might become available somewhat later, but probably before the end of the century, could place many types of missiles and aircraft (not to say spacecraft) at risk. Together, these advanced sensors and weapons could produce the kind of of space superiority which would restore naval and air superiority to the United States in a manner that exploits traditional American advantages, but without spending tens of billions of dollars on ever-smaller numbers of expensive, complex, and vulnerable ships and aircraft.³⁹⁴

Cold War competition with the Soviet Union seemed to demand that Soviet quantitative superiority in men and material be off-set not only by a corresponding American qualitative superiority in those same areas, but also with the introduction of totally new weapons technology like space-based defense and the F-117A stealth fighter. The US strategy has been to "...exploit technology to equip its forces with weapons that outperform their Soviet

³⁹³Ibid., 95.

³⁹⁴Barry J. Smernoff, "A Bold Two-Track Strategy For Space: Entering the Second Quarter-Century," in Franklin D. Margiotta and Ralph Sanders, eds., Technology, Strategy and National Security (Washington, D.C.: National Defense University Press, 1985), 151-52.

counterparts."³⁹⁵ This strategy followed the school of thought that "...technology has brought a new qualitative dimension to conventional warfare. As the quality of technology increases (e.g., the fire-power, precision, range, 'lethality'), quantitative superiority becomes less critical; modern war [thus becomes] less labor-intensive and more capital-intensive."³⁹⁶ And because high-tech weaponry is so very expensive to design and produce, the US was able to engage the Soviets in high-tech "competitive strategies" like the Strategic Defense Initiative, which eventually helped to bankrupt the Soviet Union as it focused its dwindling resources into a futile attempt to keep up with the United States and the continuing revolution in military technology.

Despite the cost of these new high-tech weapons, technology has become the (controversial) touchstone of American defense policy. In fact, "a simple count of the defense issues that have occupied the Congress since World War II would indicate that most defense issues relate in some way to technology."³⁹⁷ But, even though there is often much heated debate among American policy-makers over the projected cost-benefits ratio of certain high-tech systems, it is still generally recognized that "technology now plays a critical

³⁹⁵Franklin D. Margiotta and Ralph Sanders, eds., Technology, Strategy and National Security (Washington, D.C.: National Defense University Press, 1985), 7.

³⁹⁶Handel, 27. Handel further comments that "this trend in conventional war is likely to accelerate in the future."

³⁹⁷Margiotta and Sanders, 3.

role in assisting the United States to meet its security needs."³⁹⁸

There is a clear understanding among American defense planners that:

Differences over weapons selection can influence all other components of military power: strategy, military operations, manpower, training, and logistics. Above all, knowledgeable people understand that the research and development (R&D) decisions of today help to shape the fighting forces of tomorrow, including alterations in existing roles, missions, and budgets of the military services.³⁹⁹

The high-technology of yesterday helped to create the American armed forces of today, and their performance in the Gulf War proved reassuring to those advocates of costly high-tech weaponry. In fact, the startling effectiveness of many of the US military's highly controversial high-tech weapons systems has given even many former skeptics of this high-tech emphasis in American defense planning good reason for pause. Prewar arguments against investing in high-technology had concentrated on the supposition that complex weaponry would offer no significant advantages in actual combat because the weapons are hard to maintain (with resulting low-availability rates), and because American forces faced the possibility of being overwhelmed by "...superior numbers of simpler enemy weapons in the confusion of large-scale battles."⁴⁰⁰ While

³⁹⁸Ibid., 4.

³⁹⁹Ibid., 4.

⁴⁰⁰Walter Kross, "High/Low Technology, Tactical Air Forces, and National Strategies," in Franklin D. Margiotta and Ralph Sanders, eds., Technology, Strategy and National Security (Washington, D.C.: National Defense University Press, 1985), 65.

there were problems that developed within the "Clausewitzian" friction of war, these fears about the danger of relying so heavily upon high-tech weaponry proved to be largely ungrounded. Reflecting a growing consensus among American policy-makers, John Warner, the ranking Republican on the Senate Armed Services Committee, stated during the Gulf War that "I think you'll find the members of Congress voicing much less criticism with respect to high-tech weapons. The investment in these systems has paid off."⁴⁰¹

But even though there has been extensive disagreement on this subject, a fundamental belief in the strategic advantage of high technology has been repeatedly expressed in American policy documents. For instance, the Future Environment Working Group chaired by Andrew Marshall and Charles Wolf, in its report entitled The Future Security Environment given to the Commission on Integrated Long-Term Strategy, made the fairly typical statement heard in defense-planning circles that "over the next 20 years, probable revolutionary improvements in several families of military technology could fundamentally change the nature of warfare."⁴⁰² The Working Group's earlier report, entitled Sources of Change in the Future Security Environment, listed some of these military technologies as including "...directed energy weapons (including high-powered micro-wave), autonomous smart weapons, new families of

⁴⁰¹Huey and Perry, 34.

⁴⁰²The Future Security Environment, 26.

explosives, earth-penetrating sensors and weapons, new biological agents, brilliant information processing, and advanced robotics."⁴⁰³

Colin S. Gray, a former director of the Hudson Institute's national-security studies, has observed that "specialized though it often is, military technology is related very firmly to technological development in general."⁴⁰⁴ Maintaining a technological society that is on the cutting edge of research and development all along the technological frontier therefore becomes of prime importance to national security. Stefan Possony and J.E. Pournelle give this chain of casual events as an example of that importance. As they put it:

Technology is interdependent: advances in one sector of technology soon influence areas which might naively have been believed unrelated. For example, the development of molecular chemistry techniques led to the art of microminiaturization, which allows development of computer technology beyond the expectations of only a few years ago. The revolution in computer sciences has made possible the development of on-board computers for missile guidance, and thus of accuracies not previously predicted. Increased accuracy has made possible the destruction of missile silos with much greater ease and smaller warheads, and has led to the development of Multiple Independently Targetable Re-Entry Vehicles (MIRV), each one of which uses on-board guidance computers. The increased kill capability stimulated research into silo hardening techniques, which led directly to the present hard rock silo designs.⁴⁰⁵

⁴⁰³Report of the Working Group on the Future Security Environment Sources of Change in the Future Security Environment (Washington, D.C.: US Government Printing Office, April 1988): 9.

⁴⁰⁴Gray, 150.

⁴⁰⁵Stefan T. Possony and J.E. Pournelle, The Strategy of Technology: Winning the Decisive War (Cambridge, Mass.: Dunellen, 1970), 10.

Since the advent of nuclear weapons, it is almost an axiom in today's world that "technological innovation is probably the most significant driving force behind contemporary strategic thought. No strategist can afford to ignore the application of science to warfare."⁴⁰⁶ It is for that compelling reason alone that "no serious student of military affairs can afford to remain ignorant of the technological innovations that revolutionize our military arsenals."⁴⁰⁷ The United States has understood this pronouncement better than most, because if a nation stakes its military effectiveness on the fielding of small numbers of high technology weapons, it becomes extremely vulnerable to emerging technologies that threaten to make its existing arsenal obsolete. In his analysis of this problem of technological competition between nations, Colin Gray notes that:

It is only common sense to assume technological change, to plan to exploit ripening technological plums, and to plan to offset predictable technological trends which could have a strongly negative net effect upon long-preferred national military capabilities. For example, military technologies threatening to the survival of surface ships are particularly troubling to a United States which must exercise, rather than simply deny, command at sea.⁴⁰⁸

But understanding the potential military importance of any

⁴⁰⁶Garnett, 91.

⁴⁰⁷Ibid., 91.

⁴⁰⁸Gray, 192. Gray offers another example: "military technologies threatening to tank forces are uniquely prospectively damaging to a Soviet Union whose traditional military instrument of excellence has been its army..."

particular technology can sometimes be very difficult, for as John Garnett points out:

The genesis of a weapons system is extraordinarily complicated. It begins with a piece of theoretical science, the implications of which are imponderable even to those who are engaged in it. Even the most innocent scientific investigation may yield results with military implications beyond the wildest dreams of those who discover them. In the 1920s, no scientist working in the field of quantum physics could possibly have foreseen that his or her work would ultimately make possible the atomic and hydrogen bombs. Similarly, no modern scientist can foretell or control the consequences of his or her work. Even the purest research may lead to a new weapon.⁴⁰⁹

This relationship has been underscored by Martin van Creveld, who says that "if it is true that every part of war is touched by technology, it is no less true that every part of technology affects war."⁴¹⁰ Garnett goes even further and gives this example of how disparate scientific disciplines can combine to create unexpected advances in weaponry. His assumption follows the line of reasoning that:

Science...is the starting point of all modern weapons. But a single breakthrough, however important, may not be sufficient to create a new weapon. Other scientific developments, sometimes in quite disparate fields, may have to take place before an idea can be turned into a weapon. Frequently, the relevance of whole series of innovations in unconnected areas has to be perceived before a new weapon system can be brought into existence. Take the cruise missile, for example. What made cruise missiles possible were parallel, but largely unconnected, developments in propulsion units, high-energy fuels,

⁴⁰⁹Ibid., 92-93. Garnett points out "for example, [that] an investigation into how trees know when to drop their leaves may lead directly to the development of defoliants for use in counterinsurgency warfare."

⁴¹⁰Martin van Creveld, Technology and War: From 2000 B.C. to the Present (New York: The Free Press, 1991), 311.

minaturized electronics, and warhead design. In particular, it was the development of small gas turbine engines and light-weight computers that made cruise missiles a realistic possibility. By the 1970s the cruise missile was a "weapon whose time had come."⁴¹¹

This type of technological synergism (like the cruise missile) holds the key to US defense efforts simply because the American concept of war is based on having technological superiority in any future conflict. The recent Gulf War illustrated that principle *par excellence*. Traditionally, the United States has been much more willing to spend dollars instead of American lives in its attempt to win a conflict, and the emphasis that the US military puts on high-tech weaponry simply supports that approach. By using very costly smart weapons for example, US forces were able to "standoff" from their targets in the Gulf, a combat situation which dramatically enhanced the "survivability" of those launching platforms and the men who manned them. To this end, the US military employed incredibly expensive stealth, night vision and all-weather navigation, precision guidance, electronic warfare, and real-time warning and control technology to achieve its military victory in the Gulf at a small cost in American lives. But history has shown that "the cycle of modern weapons, measures and counter-measures, has shifted the advantage from the defense to the offense, and back, a number of times since the start of the technological revolution. Such changes are not always perceived before the

⁴¹¹Garnett, 93.

outbreak of war."⁴¹² American military technology was up to the task in this latest conflict, but the danger always remains that other nations could catch up and surpass it.

Making the chauvinistic assumption that American military technology will continue always to surpass that of any military technology capable of being fielded by any potential adversaries could have disastrous consequences. Echoing that theme, Irving Holley points out that "it is exceedingly dangerous to let nationalistic bias creep into...assessments of technology and hence into...strategic thinking."⁴¹³ The United States must always be alert to the military possibilities of foreign developed high-technology, regardless of whether it comes from a hostile state (like the Soviet Union during the Cold War) or an allied nation like Japan. Congressman Craig Hosmer warned in 1970, that "there is no halting the stream of technology; but this does not mean that the United States will automatically be first in the Technological

⁴¹²Handel, 73. The author points out "for example, despite numerous indications from the Boer War and the Russo-Japanese War, in which the growing advantage of defensive over offensive weapons was clearly demonstrated, most European armies before the First World War emphasized the development of exclusively offensive doctrines; similarly, the Israeli army before the 1973 war misread the technological trends favoring the defense in anti-tank and anti-aircraft weapons and consequently relied on an exclusively offensive doctrine. Conversely the French, before the Second World War, learned the lessons of the First World War so well that they overestimated the power of defense."

⁴¹³Irving B. Holley, "Technology and Strategy: A Historical Review," in Franklin D. Margiotta and Ralph Sanders, eds., Technology, Strategy and National Security (Washington, D.C.: National Defense University Press, 1985), 20.

War."⁴¹⁴ That statement is as true today as it was some twenty years ago.

C. JAPANESE EFFORTS TO DOMINATE THE NEW TECHNOLOGIES

The Japanese have long recognized the importance of technology as a critical economic factor. Even in the capital-intensive industries of the 1960s, like steel and shipbuilding, there was "...a deliberate national policy aimed at rapidly adopting state-of-the-art technology."⁴¹⁵ In his analysis of this national policy, Don Kash states that "MITI assured the nation of low-cost access to state-of-the-art technologies by keeping individual Japanese companies from competing with each other for the right to use those technologies."⁴¹⁶ Today, that same cooperative effort is seen as the Japanese are "...mounting campaigns, jointly funded and coordinated by industry and government, to fill the chinks in their industrial armor....They aim to preserve their traditional strengths, while matching America's flair for seminal science and prolific invention."⁴¹⁷

⁴¹⁴Possony and Pournelle, xx.

⁴¹⁵Don E. Kash, Perpetual Innovation: The New Worlds of Competition (New York: Basic Books, Inc. Publishers, 1989), 191.

⁴¹⁶Ibid., 191.

⁴¹⁷Otis Port, "Why The U.S. Is Losing Its Lead," Business Week (Innovation 1990): 35.

The real danger from Japan doesn't come from its dominance in some of the industries of today, it comes from its increasing predominance in the emerging advanced technologies of tomorrow. As business analyst Otis Port writes, there is an "...epic struggle rag[ing] on--over economic leadership....Its weapons are invention, innovation, and ingenuity....And after being out-classed for half a century, the rest of the world is now fast closing in on the U.S."⁴¹⁸ While the United States still holds a lead in most fields of research, this lead is rapidly disappearing in many areas of traditional American dominance. As Dr. Francis Narin, president of CHI Research, Inc., says: "It's scary. The Japanese are continuing to expand in virtually every area of technology. Anybody who believes that the Japanese increase is just in autos and electronics is totally oblivious of the facts. Their performance is impressive across the board, in virtually every field."⁴¹⁹ In fact, "with an economy little more than half as large, [Japan] took the world lead in technology-intensive exports back in 1986."⁴²⁰

⁴¹⁸Ibid., 35.

⁴¹⁹William J. Broad, "In the Realm of Technology, Japan Looms Ever Larger," The New York Times (May 29, 1991): B5. CHI Research Inc. findings are based on "statistical methods that gauge the significance of a nation's patents and scientific papers by measuring how frequently they are cited in subsequent patent filings. A patent that is often referred to is judged to be more important and influential than one that generates no citations."

⁴²⁰Port, 35.

Masanori Moritani, formerly a deputy director of the Nomura Research Institute, points out why this occurred:

Among the countries that lead in advanced technology, military or space-related R&D is usually prominent if not dominant--especially in the share of R&D funding they receive. A notable exception is Japan, which is fast building its industrial power and capabilities in advanced technologies by focusing almost entirely on nonmilitary products. Again and again, Japanese industry has been the first to apply a new technology to an existing consumer product, transforming it into an item of strong appeal to the public and creating a booming market. Soaring sales finance still further development of the technology involved--often to a level surpassing that in countries where the same technology has been applied mainly to high-cost, low-volume military or space-related goods, thus cutting out consumer-market revenues and stunting further progress in that field of technology.⁴²¹

The Japanese strategy in the past has been to take American inventions like the automobile, the color TV, and the VCR, and develop low-cost, high-quality ways to manufacture them; this in itself was not harmful to the American economy because it served the interests of the consumer--besides that, everyone knew that "Americans remained the world's best inventors. That was *our* economic weapon: creating new technology."⁴²² The United States could always take comfort in the fact that even as Japanese firms caught up in manufacturing techniques, American firms were still far ahead in research and development. But, "the success of American science often leads Americans to exaggerate their competitive position. After all, [they say] more Nobel prizes are won

⁴²¹Masanori Moritani, "Japan Surges Ahead In Nonmilitary Technologies," Japan Update 15, (Spring 1990): 4.

⁴²²Magaziner and Patinkin, 203.

by Americans than any other nationality. True, but success in pure science does not correlate well with economic success."⁴²³

But this American complacency has been shattered in recent years, because the Japanese have begun entering a new and more dangerous stage in their competitive strategy: they are now challenging the United States all along the technological frontier, and not just in the innovation and marketing of American ideas. Ira Magaziner and Mark Patinkin write that:

Despite having only half our population, Japan graduates more engineers and scientists than we do. In the past decade, the Japanese have marshalled that brainpower to organize an extraordinary research drive, facing off against us over the industries of the next century. There are many battlegrounds--micro-electronics, fifth-generation computers, advanced ceramics, bio-technology, superconductors. Many won't lead to high-volume products for ten to twenty years, much too long for most companies to keep up expensive R&D. Japan's bureaucracy understands that. That's why it's helping companies pioneer new commercial technologies--far more than our government is helping our own. That's why Japan has begun to match us not just in manufacturing, but inventing as well.⁴²⁴

At risk is the economy of the United States, because these new technologies will be the prime determinants of economic growth in

⁴²³Lester C. Thurow, The Zero-Sum Solution: Building a World Class American Economy (New York: Simon & Schuster, Inc., 1985), 51.

⁴²⁴Ibid., 203-204. Magaziner and Patinkin write on pages 229-230, for instance, that the Japanese have taken the lead away from the US in the development of photovoltaic technology. In 1983, the US controlled 60 percent of the world market in solar cells compared to Japan's 23 percent. By 1986, those percentages had turned around as Japan took 49 percent of the world market and the US share dropped to just 27 percent. The authors quote Paul Maycock, one of the leading scientists in the field, as saying that "the country that wins [that technological race] will harvest the best kind of jobs: engineers, programmers, technicians--jobs that low-wage countries can't easily take away."

the 21st century. According to a new report released by the Council on Competitiveness, the United States "...still leads or matches its foreign counterparts in two thirds of critical technologies, including biotechnology and computer software. But U.S. industry has fallen drastically behind in a third of technologies, like electronics, deemed crucial to commercial might and economic growth."⁴²⁵ The stakes involved are enormous, because:

Advanced ceramics has the promise of being the steel of the next century, replacing metals in car engines and airplanes. High-speed computers may well make those we have today obsolete. Biotechnology is likely to dominate the pharmaceutical industry. Advanced telecommunications and robots could each generate tens of billions a year in sales within a decade or two. Japan has targeted all those as even greater priorities than solar [photovoltaics]. Hundreds of Japanese companies have invested in each field, many spurred on by government incentives. It's happening in a half-dozen other fields as well: opto-electronics, information technology, super-conductors--industries that could mean as much to our children as computers do to us.⁴²⁶

The Japanese fully intend to dominate these technologies: they are not only working to surpass American scientific efforts to develop these new technologies, but are also attempting to politically derail any potential competition through the sustained efforts of the Japanese lobby. In a recent effort, the Japanese lobby attempted to frustrate efforts to develop an American high-definition television (HDTV) industry. As John Judis describes this

⁴²⁵Susan Dentzer, "Staying ahead in high tech: The U.S. leads in key markets but trails in many," U.S. News & World Report 110, (April 1, 1991): 13.

⁴²⁶*Ibid.*, 229.

effort:

The Japanese also use a traditional front group strategy to get their point across. Japanese subsidiaries now play a significant role in the Electronics Industry Association, but in debates with the American Electronics Association, the EIA presents itself as merely a rival American trade association. The EIA first opposed any government HDTV funding whatsoever and then, when that position appeared impolitic, insisted that foreign subsidiaries enjoy the fruits of any government intervention. The EIA's position was not without merit intellectually--its position paper was ably drafted by the Berkeley Roundtable on International Economics--but it lacked candor. What appeared to be a plea for free market principles was also part of a strategy for foreign domination of the American HDTV market.⁴²⁷

Why do the Japanese want control of this market? The answer is given by the American Electronics Association (AEA), which declares that "the new television system is 'a once-in-a-lifetime gateway for U.S. reentry into consumer electronics'."⁴²⁸ Both the AEA and the Japanese also understand that "the technology embodies a host of cutting-edge technologies that apply to a wide range of other industries, from chip production (HDTV will expand the memory capabilities of chips) to defense (information displays on military aircraft, for example)."⁴²⁹ Currently the Japanese have the lead in the race to produce a HDTV system; they have already "invested

⁴²⁷Judis, "The Japanese Megaphone," 24-25. Judis also says that "in fighting against government funding of American HDTV efforts, the Japanese have been able to rely on companies like Ampex that now get an important part of their profits from selling Japanese technology. 'We've got to the point where we can say, 'We've met the enemy and he is us,' says Bill Reinsch, an aid to [former] Pennsylvania Senator John Heinz."

⁴²⁸Edmund L. Andrews, "Translated, HDTV Means 'Beat Japan'," Business Month (June 1990): 67.

⁴²⁹Ibid., 67.

nearly \$1 billion in HDTV research and this year [1990] plan to launch the first regular programming, to be broadcast from satellite to individual Japanese receivers."⁴³⁰ How important is this lead? Well, in a study done for the AEA, the Boston Consulting Group (BCG) "...forecasts sales of high-definition receivers, VCRs, and broadcast equipment of as much as \$45 billion between 1993 and 2005. By another estimate, annual sales for just receivers and VCRs will hit \$11 billion in 2010."⁴³¹

Another method the Japanese use in their attempts to gain control of critical technologies is to either acquire a minority position within the American companies which are developing these technologies, or to simply to buy them outright. This has proven to be a very effective way of stifling US competition, and the numbers are quite impressive, for "Japan's minority investments in U.S. companies grew from from 40 deals in 1988 worth \$166 million to some 60 deals [in 1989] worth an estimated \$350 million...",⁴³² and during 1987 alone for example, the "Japanese bought an incredible 20 times as many U.S. high-tech firms as Americans bought in Japan."⁴³³ And if they're unable to purchase an American firm which is engaged in high-technology research and development in

⁴³⁰Ibid., 67.

⁴³¹Ibid., 68.

⁴³²Buell, 86.

⁴³³Omestad, 134.

some field in which they're interested, the Japanese will attempt then to set up some sort of joint venture, which then allows them to acquire the technology through the backdoor. It is a disturbing trend, for "at leading research labs in the U.S., such as SRI International, PA Consulting Group, and Battelle Memorial Institute, most research is now funded by overseas companies, mostly Japanese."⁴³⁴

The capital-rich Japanese are in a favored position in most of these joint venture relationships, and what is "...particularly worrisome is the growing reliance of American high-tech start-up companies on foreign partners [like Japan] for cash and manufacturing expertise," because the "...*quid pro quo* is usually a transfer of new technologies to the foreign investors, creating future industrial competitors."⁴³⁵ But, for small, cash-poor American companies which are on the cutting edge of various new technologies, there is often little choice but to accept Japanese capital even when they already know that there is a good chance that the Japanese will then eventually squeeze them out of the manufacturing of that new technology. It is generally acknowledged that:

Most Japanese multinationals have not transferred technology or allowed local control to the degree that American and West European corporations have for decades. Japanese firms have launched many joint ventures in computers, biotechnology, and

⁴³⁴Port, 36.

⁴³⁵Omestad, 135.

other high-tech areas with the apparent aim of transporting advanced research to Japan. As a result, American companies lose development and manufacturing experience and are drained of their research findings.⁴³⁶

An excellent example of how the Japanese are using these joint ventures to eventually dominate the technologies involved:

...is that of Japan's Kubota, a tractor company that is now making mini-supercomputers after investing in five Silicon Valley firms. The design, chips, and software all came from cash-hungry American firms in which Kubota staked money in exchange for minority shares and the transfer of technology. For a \$75 million investment, Kubota is gaining expertise to make a computer on its own in a few years....[This case] illustrate[s] a dangerous trend: U.S. companies, acting on short-term needs, are selling off the very technologies that have given them (and the economy) long-term competitive advantages.⁴³⁷

The Japanese are using almost the same approach in their attempt to "...overtake American dominance in still another major [high-tech] industry--civilian aircraft,"⁴³⁸ except this time they're picking the brains of giant American defense firms for their technology acquisition under the guise of strengthening the military alliance. The commercial-aircraft market is currently one of the few remaining markets still dominated by American firms, and the sales figures involved are huge. In 1990 alone, the United States "...trade surplus in aircraft and parts totalled about \$23 billion," with "...about 85 percent of the world's 9,800 airline

⁴³⁶Ibid., 135.

⁴³⁷Omestad, 135-36.

⁴³⁸James Fallows, "Civilian Aircraft is the Next Industry on Japan's Agenda," Business Month 134, (July 1989): 22.

jets (excluding those in the Soviet Union) [having been] made in America, mostly by Boeing and McDonnell Douglas."⁴³⁹ It will be a critical market for the United States in the future as well, for "...between 1990 and 2008, worldwide sales of commercial jets are expected to total roughly 11,500, worth about \$600 billion in today's dollars."⁴⁴⁰ With the United States already facing substantial competition from the heavily-subsidized European Airbus consortium, the prospect of having the Japanese enter this market selling commercial-aircraft which have been designed and manufactured with the help of American high-technology transferred to Japan within the U.S.-Japanese bilateral security framework is disheartening to many.

Before the joint venture for co-development of the Japanese FSX new-generation fighter was finalized between General Dynamics Corporation and Mitsubishi Heavy Industries Limited in 1989, there was an acrimonious debate in the United States over the advisability of transferring American advanced aviation technology to the Japanese. James Fallows points out that "in order to provide work for its factories and, more importantly, to acquire know-how in areas where its technology has lagged, Japan has tried to build American weapons under license rather than import them. The FSX was

⁴³⁹Robert J. Samuelson, "The Assault From Airbus," Newsweek (July 8, 1991): 46.

⁴⁴⁰Ibid., 46.

in fact a perfect illustration of Japan's preferences."⁴⁴¹ By using advanced American technology gained from joint ventures like the FSX and the licensed production of existing military aircraft like the F-15, the Japanese hope to be able to transfer that knowledge into the production of civilian aircraft. This is a conscious effort on the part of the Japanese government to gain American technology, while at the same time seeming to comply with persistent US requests that Japan bolster its part of the military alliance between the two nations.

The Japanese cleverly have attempted to "...harness two nation's military budgets--its own and America's--to increase [its high-tech] industrial production."⁴⁴² Through this method, it has managed to begin turning its "...military budget to economic advantage."⁴⁴³ If the Japanese truly had been concerned about either saving money or simply improving the force structure of its Air Self-Defense Force, they would not continue to push for licensed production of combat aircraft in Japan, because figures show that Japanese-produced F-15 Eagles not only take longer to enter their military inventory, but "...cost twice as much as those

⁴⁴¹Ibid., 24.

⁴⁴²Fallows, "Civilian Aircraft is the Next Industry on Japan's Agenda," 24.

⁴⁴³Ibid., 25.

produced in America...."⁴⁴⁴ As for the FSX, it is still behind schedule and way over budget.

But saving money and strengthening the ASDF is not the primary concern of the Japanese. They are looking for the advanced aviation technology--and they're getting it. After co-production of the F-15 had begun, "the General Accounting Office concluded that a massive transfer of technology had greatly strengthened Japan's aircraft manufacturers, both military and commercial, as well as its electronics industry."⁴⁴⁵ It is increasingly clear that the Japanese hope "...to combine military and commercial industries in a unique way....[through] the value of spin-offs, particularly from military projects such as the FSX and Japan's ambitious space-rocket program."⁴⁴⁶ The Japanese are once again taking advantage of a "...40-year behavior pattern in which the United States has sacrificed its economic interests for what it regarded as military imperatives."⁴⁴⁷

Even though Japan is still behind in advanced aviation technology, Japanese advances in other technological fields are proceeding apace and are reflected in large part by the number and quality of patents granted to Japanese companies over the last few

⁴⁴⁴Ibid., 24.

⁴⁴⁵Harrison and Prestowitz, 58.

⁴⁴⁶Fallows, "Civilian Aircraft is the Next Industry on Japan's Agenda," 25.

⁴⁴⁷Harrison and Prestowitz, 58.

years. During the 1960s, American companies routinely filed the largest number of patents, but have been steadily losing ground ever since. Even though the United States still holds on to a slim lead in US patents issued, the long-term trend has been discouraging. The foreign share of US patents has grown from 18.6 percent in 1963 to 47.3 percent in 1988. Last year, four *Japanese* companies led in the number of US patents granted while only four American firms even made it into the top ten list.⁴⁴⁸ In 1990, Americans received just 53.3 percent of the 96,727 US patents issued.⁴⁴⁹

William Broad, in his analysis of Japan's strong challenge for technological dominance, states that:

High-quality patents are seen by many experts as potent indicators of a nation's future prosperity because they signal the emergence of important new technologies that will be under the patent holder's exclusive control for many years. Superior scientific papers are considered important to a nation's industrial health because inventors increasingly rely on basic research to compete effectively in the international race for commercial innovations.⁴⁵⁰

American research has traditionally been extremely strong at

⁴⁴⁸Laurent Belsie, "US Patent Numbers Raise Hope of Inventive Resurgence," The Christian Science Monitor 83, (March 13, 1991): 7. These four US companies were General Electric, Eastman Kodak, International Business Machines, and North American Philips.

⁴⁴⁹Ibid., 7. This is exactly the same percentage as in 1989.

⁴⁵⁰Ibid., B5. Broad says that "the detailed analysis of citations to patents and scientific papers, though laden with limitations and sometimes faulted as experimental, is seen as having attained a new level of maturity and respectability in recent years. The Federal Government has increasingly used the method to study technical trends."

the level of basic science, but citation analysis of American scientific papers by the Institute for Scientific Information has shown that even though the quality of American research has steadily grown over the last ten years, most of the scientific advances have been reflected in academic fields like earth science and environmental studies. Sharp declines were noted in the technologies which are critical for industrial competition--including computer science, communications, electronics, engineering, robotics and instrumentation. Meanwhile, between 1983 and 1989, the Japanese have pulled up almost even in total technological strength as measured by these types of studies. These findings reveal some disturbing trends in the industrial competition between Japan and the United States; in 1985, for example, Hitachi surpassed IBM in overall technical strength, and it is continuing to widen the gap.⁴⁵¹

These trends can be partially explained by looking at the amount of money being spent on research & development by each of the two countries. In 1981, Japanese firms spent about \$19.8 billion on R&D compared to \$35.9 billion for American companies, or roughly 55 percent of the US total. By 1986, Japanese spending had changed that ratio in their favor to about 71 percent as they invested \$41.6 billion in research compared to the US total of \$58.2 billion. Estimates are that the Japanese are now funding

⁴⁵¹Ibid., B8.

their R&D programs at about 90 percent of the US level, even though their economy is only half as large.⁴⁵² The trend in U.S. R&D investment is also worrisome, considering that in 1989, "...7 of the top 10 foreign R&D spenders [were] Japanese companies."⁴⁵³ Business Week research into this trend has shown that:

R&D spending by U.S. companies in 1989 totaled \$65.2 billion, up 10% from 1988 in current dollars, but only 5.6% when adjusted for inflation. That compares with an 11% nominal, 6.6% real gain registered in 1988, and it means that the downward drift in R&D continues. From the mid-1970s to the mid-1980s, U.S. industrial R&D spending annually surged as much as eight points ahead of inflation, reflecting robust investments in exciting new technologies. But in the late '80s, as companies reacted to cost pressures and a more sober business climate, R&D suffered.⁴⁵⁴

How those dwindling funds are spent is equally important. Traditionally, the US has concentrated much of its technological research into three basic sectors: defense, medicine, and agriculture. Large research organizations in each of these sectors dominate the funds spent on the search for new technologies or

⁴⁵²Magaziner and Patinkin, 357-358. See too in Michael Porter, The Competitive Advantage of Nations, p. 398, where he writes that "as technological capability has grown in Japan, companies have increased the rate of spending on more and more basic research. Today, Japanese government statistics show that Japan is a net exporter of technology measured in terms of new research contracts or agreements. The overall level of R&D spending in Japan has risen from 1.9 percent of GNP in 1971 to 2.8 percent in 1987, along with Germany and Sweden the highest of any advanced nation. Virtually all Japanese R&D is in areas other than defense. Government funds a modest 21 percent of national R&D (compared to 47 percent in the United States) and more than 80 percent of Japanese government-funded R&D is in general science and energy..."

⁴⁵³Emily Smith and James B. Treece, "Glimpsing The Future In The Numbers," Business Week (Innovation 1990): 195.

⁴⁵⁴Ibid., 194.

improvements in existing ones. In fact, these three sectors "...employ well over half the nation's scientists and engineers, spend over 80 percent of federal research and development (R&D) funds (or nearly 90 percent if NASA's R&D is included), and accounted in 1985 for 25 percent of the Gross National Product (GNP)."⁴⁵⁵ This poses a problem for the US because "...given the continuous pattern of innovation and the size and entrenched character of the special-interest policy systems in defense, medicine, and agriculture, it is difficult to focus the nation's innovative capabilities on other sectors."⁴⁵⁶

There are some policy analyst like Don Kash, a Research Fellow in the Science and Public Policy Program, who feel that this "...inability to reallocate the resources necessary for technological innovation [is] closely linked to [the] most urgent problem facing the nation: we have no broad-based, well-developed organizational capacity to innovate continuously technologies that are competitive in the international marketplace." Even so, Kash notes, "the erosion of the nation's competitiveness in commercial high-tech products is not so much a result of any decline of capabilities in the United States as it is a reflection of rapidly growing foreign capabilities."⁴⁵⁷ This can be seen, for instance,

⁴⁵⁵Kash, 9-10.

⁴⁵⁶Ibid, 10.

⁴⁵⁷Ibid, 12.

in Japanese research which is attempting to "...sculpt ever smaller devices in semiconductor materials--and to concoct new materials from combinations of atoms that Mother Nature didn't try--Japanese engineers are testing the limits of scientific theory."⁴⁵⁸ As Genya Chiba, vice-president of Japan Research Development Corp., says, "one can no longer make a clear distinction between science and technology."⁴⁵⁹

The Japanese government's own investment in research and development has been relatively small, in large part because the Japanese have been very successful in the past exploiting, at very little cost to themselves, basic research done in the United States and Europe.⁴⁶⁰ Much more important than the money it spends on R&D though, are the *methods* by which the Japanese government helps to promote commercialization of new technologies by aggressively subsidizing prototype markets for new products. This is usually accomplished through direct purchase of products (such as solar-power generation plants, or superconductive train systems), by

⁴⁵⁸Gross, 75.

⁴⁵⁹Ibid., 75.

⁴⁶⁰Ibid., 363. The authors state that "the U.S. government spends far more on R&D than the Japanese government, about \$59 billion in 1986, compared to about \$12 billion in Japan. But this is misleading. About 70 percent of the U.S. government funds are spend on defense R&D, an additional 12 percent on basic health-care research, and 16 percent for space exploration. The remaining \$7 billion provides support for basic research primarily in areas as diverse as the environment, housing, and energy. Very little goes to support potentially commercial ventures. In Japan, about 80 per-cent of the R&D funding, or about \$9 billion, goes to research and development in commercial areas."

using tax incentives to stimulate private purchases, and through special leasing schemes, as it has done with computers.⁴⁶¹

But there is another aspect to the technological race and that is how technology is accepted and used at the individual worker level. Here too, the Japanese have an advantage, for innovation is continually pushed by all levels of the business hierarchy in Japan. Professor Ken-ichi of Hitotsubashi University describes this Japanese penchant for taking the latest technology and carrying out "...continuous incremental innovations aimed at delivering both higher quality and lower cost":

Japanese as individuals and as members of firms are very aware of the importance of technology, and there is a widespread grass roots basis supporting the spread and development of new and better ways of doing things. This is one part of the accumulation of small innovations for which Japanese firms are renowned.⁴⁶²

There are many American industry leaders like Andrew Grove, president of Intel Corp., who adamantly believe that if trade was the Japanese economic weapon of the 1970s and 1980s, then "...in the 1990s, it's going to be investment-cum-technology-transfer..."⁴⁶³ Until Americans begin to understand that Japan has

⁴⁶¹Ibid., 258.

⁴⁶²Kash, 191. See too in Robert C. Christopher, Second To None: American Companies in Japan (New York: Crown Publishers, Inc., 1986), p. 24, where Christopher says that "among the many admirable characteristics of Japanese workers and plant managers is their habit of continually making small changes in the machinery and manufacturing process used by their company--changes which, incrementally, often add up to major improvements in both worker productivity and product quality."

⁴⁶³Buell, 87.

been conducting an assault not only upon American markets but also upon the technological underpinnings of US national security, it is going to continue to hold an immense advantage over the US in the economic arena. The Japanese view economic security as a 'zero-sum' game: if US industry is ahead in any significant technological field, the Japanese feel threatened. As the Japanese themselves have stated about this aspect of their industrial policy: "When the technology concerned is critical to the security of a nation's economy, the government of that country will be forced to take the necessary measures to develop the industry concerned so that its firms can become competitive and assure the security of the country's economy."⁴⁶⁴

⁴⁶⁴Ibid., 125. These comments were quoted from talks between MITI officials and US trade negotiators in 1983 and 1984 held pursuant to complaints of unfair trade by the US machine tool industry. For a more recent example see in Kevin L. Kearns, "Flat-panel case acts as paradigm: U.S. needs to save critical industry," San Jose Mercury News (February 25, 1991): 3D, where Kearns, a former State Department official and now a fellow at the Economic Strategy Institute in Washington, D.C., comments on a recent finding by the Department of Commerce that says the Japanese are dumping flat-panel screens in order to drive US competitors out of this critical technological field. As Kearns states: "The stakes in this struggle are immense. The market for flat-panel displays is expected to grow from \$1.8 billion yearly in 1988 to \$8.5 billion a year by 1996 and then expand even faster. The firms that win the race will realize untold billions in profits and wield vast economic and technological power." The article goes on to say that Japanese tactics for dominance in the field were laid out bluntly in the December 1989 Japan Economic Journal. Explaining why Toshiba was willing to make such heavy investments in flat-panel production capacity at an early stage of the market, Executive Vice President Tsuyoshi Kawanishi said: "We are prepared to accept red ink for the first five or six years. From the experience of our semiconductor industry, we have learned that one has to take a long-term perspective." As Kearns comments: "To those in Washington and Silicon Valley who witnessed the Japanese 'targeting' and near destruction of the U.S. semiconductor industry, this statement spelled the end of the U.S. flat-

This policy is one which will very likely put Japan on a collision course with the United States, for "increasing competition between the United States and Japan in the emerging high-technology industries will continue to cause tension, with Japan investing more to establish a competitive advantage in this [high-technology] sector as its older industries decline."⁴⁶⁵ Leonard Silk, in an editorial in The New York Times, points out the real danger of allowing the Japanese to pursue their policy of targeting these high-technology markets:

The Japanese strategy, according to Richard J. Elkus Jr., chairman of the Prometrix Corporation, a California-based manufacturer of semiconductor equipment, is based on the concept that products and markets become more and more interrelated during development. "Every technology becomes the stepping stone for the next," he said. "Every product becomes the basis for another. And the resulting efficiencies of scale are enormous." The heart of the Japanese strategy, he contends, is that capturing product markets is the key to technological supremacy. "One often hears how we must improve our technological base," Mr. Elkus told a...conference of the Center for Strategic and Industrial Studies in Williamsburg, Va., adding: "Technology follows markets, not the other way around. If you own the technology, but lose the market, you will lose that technology."⁴⁶⁶

panel makers."

⁴⁶⁵Spencer, 166.

⁴⁶⁶Leonard Silk, "Can U.S. Recover In Electronics?," The New York Times (May 4, 1990): C2. Elkus also relates that he was part of the team that developed the videocassette recorder at Ampex in the postwar years. As Silk explains: "In 1970 Ampex was involved, through a joint venture partner, Toshiba, in discussions with other Japanese companies, including Sony and Matsushita, to develop a VCR standard. But Ampex, lacking adequate financial resources and seeking quicker returns elsewhere, decided not to pursue the VCR market, which was picked up by the Japanese. With that loss, Mr. Elkus said, went not only most of the video recording but also a major share of support technologies, including the design and

The consequences of losing both the markets and the technology would be grave, for American national security depends upon technological innovation creating not only a strong economy, but a strong defense as well. As Jacques Gansler, a former Defense Department official, observes: "Because technological superiority is a significant part of our military and economic national strategy--some say it is our national strategy in both areas--it is critically important to maintain our leadership position."⁴⁶⁷ If nations like Japan are determined to control critical areas of emerging technologies and shut out US industries, American security interests could be severely damaged in the coming decades. Technology transfers between allied nations like Japan and the US should strengthen all concerned; but, if the Japanese decide that they must exercise sole control over critical technologies, they are forcing an eventual confrontation, because the United States cannot allow itself to be put in a situation where it is held hostage by foreign developers and manufacturers of critical technological components necessary for its industry and armed forces. This is why Americans have become increasingly concerned about the prospects of vital technology being controlled by "nationalist" Japanese like Shintaro Ishihara.

manufacture of semiconductors."

⁴⁶⁷Gansler, 105.

D. SHINTARO ISHIHARA AND THE POSSIBLE CONSEQUENCES OF JAPANESE DOMINATION OF CRITICAL TECHNOLOGIES

There are a number of Japanese opinion-makers who openly declare that Japan does have an economic agenda which may at times run counter to the interests of American national security. These declarations are usually made in conjunction with strong statements stressing the imperative of Japan's growing economic strength and emphasizing the view that a declining and racist America is no longer worthy of respect. This viewpoint that Japan is growing stronger, and, by inference, more powerful in world affairs, has been underscored recently by the publication in Japan of an extremely popular book called No to ieru Nihon. Translated as The Japan That Can Say No, it was written by Akio Morita, co-founder and chairman of Sony Corporation,⁴⁶⁸ and Shintaro Ishihara, a right-wing Japanese politician who some say has an outside chance of someday becoming Japan's prime minister.⁴⁶⁹ When the book was first published in Japan, it was "...assumed that it would be just for home consumption."⁴⁷⁰ Instead, it created a firestorm of

⁴⁶⁸When the book was eventually published in the United States Morita withdrew his co-authorship, apparently fearing that his connection with the book could lead to a possible loss of sales for Sony.

⁴⁶⁹This work is a form of round-table discussion (zandankai) commonly used by Japanese commentators to reflect on current affairs. Viewpoints expressed often represent the latest thinking on the subject and are used to work out a future agenda on particular issues.

⁴⁷⁰Amy Borrus and Paul Magnusson, "The Book That's Creating A Firestorm," Business Week 3130, (October 23, 1989): 78.

controversy between the United States and Japan, as influential Americans throughout industry and government were shocked by the arch (Japanese) nationalism and the implied threats to US national security expressed in the book. A top Bush Administration trade official stated the wide-spread view in Washington that the book "...could become a symbol of [dangerous] Japanese arrogance."⁴⁷¹

One of the main points stressed by Shintaro Ishihara in the book (and a point that sent shivers down the spines of military planners in the Pentagon), is that "Japanese technology, particularly semiconductors, gives Japan the opportunity to play power politics with the United States and the Soviet Union."⁴⁷² DARPA (Defense Advanced Research Projects Agency) was concerned enough about the contents of the book to circulate an unauthorized translation within Congress and the Pentagon long before the book was actually published in the United States in revised form. As an unnamed Pentagon source stated: "The book had deleterious implications not only for our economic but for our military future." Some of the more inflammatory points taken from the book that the Pentagon considered relevant to national security were:

1. Whether it be midrange nuclear weapons or intercontinental ballistic missiles, what ensures the accuracy of weapons is none other than compact, high-precision computers [that rely on computer chips]...If Japan stopped selling chips [to the U.S.], there would be nothing more [the U.S.] could do.

⁴⁷¹Ibid., 78.

⁴⁷²David MacEachron, "America: Don't Take 'No' for an Answer," Harvard Business Review (March-April 1990): 178.

If...Japan sold chips to the Soviet Union and stopped selling them to the U.S., this would upset the entire military balance;

2. The American nuclear umbrella is just an illusion as far as the Japanese people are concerned. The time has come for Japan to tell the U.S. that we do not need American [military] protection. Japan will protect itself with its own power and wisdom;
3. America wants to steal Japanese know-how. They cannot manufacture the most technologically advanced fighters without advanced ceramic and carbon fiber technology from Japan;
4. Japanese technology has advanced so much that America gets hysterical, an indication of the tremendous value of that card--perhaps our ace; and
5. When the time comes that Japan does say no decisively on a particular issue, there may be a dramatic reaction...Should America behave unreasonably toward Japan, Japan must open channels to deal with the rest of the world from a different standpoint.⁴⁷³

Ishihara is an outspoken and provocative Japanese politician, whose writings are certainly not the official views of the Liberal Democratic Party (to which he belongs) or the Japanese government, but the fact that the book has sold over a million copies in Japan seems to prove that his views have hit a sympathetic chord in the minds of many Japanese.⁴⁷⁴ Some analysts believe that Ishihara has revived an extreme form of Japanese nationalism that began in the

⁴⁷³Shintaro Ishihara, "Playboy Interview: Shintaro Ishihara," interview by David Sheff, Playboy, (October 1990): 59.

⁴⁷⁴See in David Sheff, "Playboy Interview: Shintaro Ishihara," p. 60, where Sheff says that Ishihara "is at once Japan's most respected and most loathed politician. One young businessman said, 'He is a very bad man.' But far more people...feel that his is the voice they have been waiting for." Sheff also quotes a Japanese companion as saying that Ishihara "is the only Japanese who bravely speaks out to the world for us. And what he speaks is the truth."

late 19th century and was used to justify Japanese expansion in the 1930s and 1940s. John Stern, head of the Japan office of the American electronics industry association, has described the book as "...a manifesto of the Greater East Asian Co-Prosperity Sphere."⁴⁷⁵ Other Japan-watchers say that:

The most charitable interpretation sees this renewed nationalism [as expressed in Ishihara's views] as a belated recognition that meekness on the world stage is no longer appropriate for Japan. It sees Ishihara merely as voicing dissatisfaction with an outmoded relationship between Japan and the United States. Seen thus, the book serves three purposes. First, it serves as a *cri de coeur*, stripping away the reserve of official statements and enabling foreigners to glimpse some deeply felt Japanese concerns. Second, as a criticism of the United States, the book points to domestic problems that need to be resolved if the United States is to achieve economic growth. Finally, *The Japan That Can Say No* should spur Americans to reassess what is, clearly, an outmoded international relationship....A less charitable view of this book sees in its nationalism the resurrection of an unreconstructed arrogance. At the moment this interpretation appears more compelling, for Ishihara's remarks fit with other statements by leading Japanese figures.⁴⁷⁶

An example being Ryutaro Hashimoto, the former Finance Minister, who remarked that in future relations with the United States "...we'll be expressing ourselves more forcefully and clearly."⁴⁷⁷ Recent writings by a number of other Japanese have tended to echo these same sentiments--Yoichi Shinkai, an Osaka University economics professor, for instance, has expressed the

⁴⁷⁵Andrew Goble and James C. Carlson, "Japan's America-Bashers," Orbis: A Journal of World Affairs 34, (Winter 1990): 85.

⁴⁷⁶*Ibid.*, 85-86.

⁴⁷⁷Borrus and Magnusson, 78.

increasingly held view among many Japanese that "...to some extent the disputes [between the US and Japan] are the predictable backlashes that occur when a newly rising power starts to shoulder the old powers aside."⁴⁷⁸ A more extreme example can be found in the (representative) best-seller written by a former Bank of Japan official, Osamu Shimomura, titled Japan Is Not At Fault: America Is. As Kenneth Pyle comments with some alarm, Shimomura's book "...pandered to the pervasive but still formless nationalist mood of Japan in the late 1980s."⁴⁷⁹ In the book, Shimomura angrily wrote, for instance, that:

The United States cannot bear to be the loser, and so it concludes that free trade means arranging things so it cannot lose. Doubtless this attitude reflects the belief in excellence--its own excellence. America believes that by rights it ought to be stronger than Japan; since it cannot be, it tries to hold Japan back.⁴⁸⁰

This view that the United States is trying to hold back Japan is a pervasive one among Japanese, and it is often related to the idea that the racist Americans "...are basically frustrated because

⁴⁷⁸Yoichi Shinkai, "Japan's Positive Role as the World's Banker," Economic Eye: A Quarterly Digest of Views from Japan 2, (Summer 1990): 25.

⁴⁷⁹Kenneth B. Pyle, "The Burden of Japanese History and Politics of Burden Sharing," from Makin and Hellman, eds., Sharing World Leadership?, 71.

⁴⁸⁰Osamu Shimomura, Nippon wa warukunai: warui no was Amerika da (Japan Is Not At Fault: America Is) (Tokyo: Bungei shunju, 1987, as quoted in Kenneth B. Pyle, "The Burden of Japanese History and Politics of Burden Sharing," from Makin and Hellman, eds., Sharing World Leadership?

the non-white Japanese are doing so well."⁴⁸¹ This type of thinking reveals a disturbing trend, and one which could cause future problems, "...for in the face of growing differences with America over economic and political matters, the shame of World War II will inevitably give way to a more natural, and more fierce, national sensibility. This will particularly be the case should Japan experience a decline in its economic miracle and blame the United States for that decline."⁴⁸²

With this possibility in mind, the changing attitudes of younger Japanese leaders towards the United States is becoming an important concern, because there is "...a small but increasingly noisy minority of mostly younger technocrats and politicians [who] agree with Ishihara's central point--that the U.S. is a fading power without grounds to lecture Japan on trade and *other issues* [*italics mine*]."⁴⁸³ Technology transfer and American reliance upon Japanese high-tech components for its weapons systems are two of

⁴⁸¹Jiro Koitabashi, "Shintaro Ishihara Interviewed on New Book," FBIS-EAS-90-122-S, (25 June 1990), 16.

⁴⁸²Friedman and Lebard, 13.

⁴⁸³Borrus and Magnusson, 78. See too in Richard Nixon, In The Arena: A Memoir of Victory, Defeat and Renewal (New York: Simon and Schuster, 1990), p. 56, where Nixon says that "while Japan has begun to take on a wider global role, its ultimate shape remains undetermined. Although Japan's and America's interests would best be served by a collaborative relationship, the prevalence of Japan-bashing in the United States and America-bashing in Japan casts a dark cloud on the future of our relationship. With the rise of as new generation of Japanese leaders--many of whom have no personal memories of the U.S. postwar reconstruction of Japan--the danger exists that our trans-Pacific ties will fray or even snap."

the most important of these "other issues." George Friedman and Meredith Lebard tread on explosive ground in their new book The Coming War With Japan, when they contend that "the real issue [is] almost never mentioned in the [technology transfer] controversy: the future of the U.S.-Japanese alliance after the Cold War," and even more importantly, "...the possibility of trade wars turning into something more direct, more military, [is] also never discussed."⁴⁸⁴ Their contention that there is a coming war with Japan is almost certainly wrong, but it is foolish to totally ignore the possibility of a less friendly Japan confronting the United States in other ways. That is why Ishihara's views have to be taken into account when Americans consider the strategic implications of Japan coming to dominate many of the advanced technologies of the future. As the Japanese continue to surge ahead in many high-tech fields and gradually gain control their production, US defense planners are forced to take note when someone like Ishihara gloats that:

The U.S. can make all the 256K chips it wants to, but the chips that will determine the future--essentially the ones required for fifth-generation computers with a capacity of one and two megabits, which are key in targeting ICBMs--are not made in America, at least not with consistent quality. Japan is five years ahead of America in semiconductor technology and the gap is widening. The gap is even wider for four- and five-megabit chips and larger memory chips. The more sophisticated the chips, the greater Japan's dominance. It is a fact: The U.S. is dependent on the Japanese chips.⁴⁸⁵

⁴⁸⁴Ibid., 374.

⁴⁸⁵Sheff, 68.

This is unfortunately true. In 1987, the Defense Department's Defense Science Board had already declared the situation unacceptable that "U.S. defense will soon depend on foreign sources for state-of-the-art technology in semiconductors."⁴⁸⁶ In fact, the report "...found that America is dependent on Japanese suppliers for eight electronic devices crucial to U.S. weapons systems."⁴⁸⁷ This is a situation that is making American defense planners increasingly nervous, especially when they consider the *possible* implications of having a Japan which is no longer a reliable ally. Ishihara has stated, for example, that:

America is very seriously concerned about losing power of any kind to Japan. Some Americans have been raising their voices in advocacy of an increased Japanese defense capacity. This may be a worthwhile suggestion. We should overhaul our current defense system, although I am not advocating an abrupt cutting of ties with the U.S. We have accepted this absurd defense formula consisting of three defense forces. This system must be completely over-hauled to suit present realities, including a much greater deterrent capacity, exploiting our high technology to the maximum. We should develop the most persuasive and demonstrable deterrent formula which would, without any doubt, show our adversaries that any attack on Japan will end with unbearable damage to the aggressor from both a strategic and a tactical viewpoint.⁴⁸⁸

There seems to be little doubt among many analysts that Japan will translate its economic power into global (military) power.

⁴⁸⁶Philip H. Trezise, "Japan, the Enemy?," The Brookings Review (Winter 1989/90): 12.

⁴⁸⁷Borrus and Magnusson, 78.

⁴⁸⁸Akio Morita and Shintaro Ishihara, The Japan That Can Say "No", as excerpted from the *Congressional Record*, (Washington, D.C.: The Jefferson Educational Foundation, 1990), 98-99.

Fred Ikle and Terumasu Nakanishi take that view, and have written that:

Tokyo has pursued global economic policies for years by participating in international financial organizations and economic assistance programs and by guiding the far-flung investments of large Japanese corporations. *But the Japanese body politic may be inclined to resist commensurate expansion of the nation's security horizon. Japanese public sentiment reflects a reluctance to become engaged in issues of foreign policy and defense* [italics mine]. Over time, however, the disparity between the global horizon of Japan's economic policies and the regional horizon of its security strategy cannot persist. A nation with the economic and technological strength of Japan is unlikely to remain a purely regional power in the 21st century.⁴⁸⁹

Ishihara's earlier statement about changing the alliance to suit "present realities" seems to ominously echo Lord Palmerston's political adage that nations [like Japan] have neither permanent friends nor permanent enemies, only permanent interests; and, if the Japanese do become more than simply a regional power in the future, it is also a political philosophy which the United States ignores at its own peril. Ishihara obliquely makes the point that Japan's interests *could* run counter to the needs of American national security, when he "...urges 'reform' of the U.S.-Japan Security Treaty so that Japan can launch a major military buildup *independent* of U.S. policies [italics mine]."⁴⁹⁰ If politicians of Ishihara's ilk ever gain any significant power in Japan, this kind of independence could signal the possibility of other inopportune

⁴⁸⁹Fred Charles Ikle and Terumasu Nakanishi, "Japan's Grand Strategy," Foreign Affairs 69, (Summer 1990): 81-82.

⁴⁹⁰Borrus and Magnusson, 78.

political weather-changes in Japan as well--like the sudden withdrawal, for instance, of Japanese support for any future American military engagements, an action, which during a moment of global crisis could suddenly place in doubt the reliability of American imports of critical defense technology or components from Japan. This is actually not that far-fetched a scenario, for this type of political behavior has been demonstrated already by the Japanese to a certain extent in the Gulf War (which most Japanese did not support), when the Diet stipulated that any monies given to the United States not be used for military procurement.

Ishihara is not the only Japanese to forcefully advocate this type of independent action either, for there are many others, like Yasunori Abe, Chief of the Washington bureau of the Japanese newspaper Sankei, who have "...pointed out the possibility that too much pressure on Japan by the United States on trade matters could backfire, and when reassessment of relations with the United States came it might be quite sudden and quite extreme."⁴⁹¹ These views are perhaps not too surprising when one realizes that Sankei is the most conservative (some say right-wing promilitary) newspaper among the mainstream Japanese press when it comes to foreign policy issues, but it is disconcerting to note however, that Abe remarked that there "...was a special quality in the Japanese character, a propensity for sudden swings of emotional overcommitment," and that

⁴⁹¹Barnett, 23.

the "...Japanese as a group, on short notice, could go to great extremes."⁴⁹² Abe also observes, in a remarkably frank statement, that "...large-scale remilitarization of Japan could easily include a decision to produce a sophisticated nuclear weapon capability."⁴⁹³

When statements like Abe's are placed into a *realpolitik* geopolitical context, they demonstrate very markedly the *possible* danger of becoming overly reliant upon Japan for critical high-tech components of US defense. Ishihara pulls no punches when he says that "Japan's leading edge technology [is] superior to that of the U.S. so much that Americans [have] become nervous concerning the magnitude of Japan's superiority in that area."⁴⁹⁴ In some respects, he's absolutely right, and it illustrates a strategic problem that the United States is going to have to deal with, because "it has long been recognized that national security for a great power can be compromised by a war economy unduly dependent upon overseas supply of raw materials, of critical manufactured components, or of finished products."⁴⁹⁵

⁴⁹²Ibid., 22.

⁴⁹³Ibid., 23. The author quotes Abe further on the same page as saying that "support of that view on paper might not be easy to find. Nuclear weaponry was a taboo subject. If there was Japanese advocacy of production, possession, or use in certain quarters it was likely to be quiet, oblique, and suggestive."

⁴⁹⁴Ishihara, 78-79.

⁴⁹⁵Gray, 143.

If what some American analysts maintain is true, and "Washington's strategic policy toward Japan is drifting toward greater United States dependency on Japan because of Japan's regional political importance, its economic importance to the Western world, and *its growing ability to develop and produce the advanced high-technology components required for U.S. weapons systems* [italics mine]," then there is cause to worry if politicians like Ishihara ever get the upper hand in Japanese politics.⁴⁹⁶ Because, if that did happen, there are many who argue that there could very quickly be less emphasis on fukoku (rich country) and more on kyohei (strong military), with potentially disastrous effects on the balance of military power in the world. This disastrous effect could be achieved by the Japanese through the withholding of advanced technology from the United States, the sale of high-tech (and potentially more advanced) weaponry to regimes unfriendly to the United States, or simply by eventually threatening American military dominance with its own rebuilt military force.

⁴⁹⁶Olsen, 121. See too in Kondracke, "Trade Gales," 13, where Kondracke quotes a peeved American negotiator talking about the difficulties of even dealing with a "friendly" Japan, much less one controlled by arch-nationalists like Ishihara: "The Japanese are very shrewd. They know that in a crisis the United States always does what it has to do to get its act together. So for years they've been trying to give us just enough to avoid the crisis. If they delay it long enough, they'll have a stranglehold on our economy. We won't be able to do without their computer chips or defense components and won't be able to afford a crisis."

American policy-makers must realize that the Japanese are different in their geopolitical outlook, and their goals are bound to deviate at times from American goals. The US must develop, therefore, a strategy for dealing with a Japan which might not be as accommodating in the future as it has been in the past; and, therefore, their race for technological dominance could endanger US security interests. Americans must not be misled into thinking that this is not one of the most pressing challenges facing the United States in the post-Cold War environment.

VI. CONCLUSION

The United States finds itself at the end of the Cold War the strongest military power on earth. It also remains the world's largest economy. Its diplomatic and political influence seems to have increased dramatically as a consequence of the Gulf War, and, this influence continues to remain high throughout most regions of the world--there is a general sense that America is riding high once again. There are many policy analysts, like Charles Krauthammer of The Washington Post, who believe that the United States has emerged from the Cold War as the *only* remaining superpower. As Krauthammer unabashedly puts it: "The most striking feature of the post-Cold War world is its unipolarity."⁴⁹⁷ In his calculated view, this "unipolarity" has the United States (along with its Western allies) as the critical axis around which the rest of the world will revolve.

In support of this "unipolar" view, Krauthammer contends (quite correctly) that the Soviet Union is in full geopolitical retreat with its military and political influence rapidly

⁴⁹⁷Charles Krauthammer "The Unipolar Moment," Foreign Affairs 70, 23. See also on page 24 where the author states quite boldly that an analysis of the old conventional wisdom that Germany and Japan would be America's chief rivals in a new multipolar world "leaves us with the true geopolitical structure of the post-Cold War world, brought sharply into focus by the gulf crisis: a single pole of world power that consists of the United States at the apex of the industrial West."

declining as its economy staggers towards total collapse; Germany and Japan, nations which have always been highly touted as the new rivals in any emerging *multipolar* world, have shown themselves during the recent Middle East crisis to be unable, or perhaps unwilling, to translate their tremendous economic clout into the necessary elements of influence essential for effective world leadership. In his analysis there are currently no real competitors able to vie with the United States for global preeminence; and, furthermore, Krauthammer contends that this American preeminence in world affairs will continue for at least three or four more decades, but, with the carefully stated caveat that for this to happen the American economy must reinvigorate itself and avoid any further economic decline. This, of course, is the important point, and the question then becomes whether or not Japan's growing economic strength contributes significantly to this perceived decline in the American economy. The answer is a "qualified" no--"qualified" in the sense that if Japanese efforts to dominate the advanced technologies succeed in monopolizing large segments of high-technology production in the future (as those outlined in the last chapter), that new situation could result in reduced American competitiveness and increased defense vulnerabilities. In that sense there is a *possible* threat to US national security, but Japanese economic competi

tion as it is now constituted, does not endanger the United States, regardless of the contentions of the "Japan-bashers."

It is true that Japanese economic might is huge and still expanding, and for those who predict the future by extrapolating the past, the trend would seem to show that Japan could pose a real danger to American economic interests in the coming years. This is an approach fraught with error however, for as recent history has shown, one must be extremely wary of assuming that strength today automatically translates into strength tomorrow. Take, for example, the erroneous predictions made about the economic dominance of various nations just since the end of the Second World War: initially, it was thought that American dominance of the world's economy in the late-1940s would continue unabated; then, there was the fearful assumption that the rapid industrial and technological growth of the Soviet Union in the 1950s heralded a new economic challenge; this was quickly followed with resurgent European fears of American domination in the 1960s; a fear rapidly replaced after the oil-embargoes in the 1970s, and the subsequent dramatic rise in the wealth and power of the Arab OPEC members; and, now, followed with new fears arising in the 1980s of the emergence of an financially powerful Japan. Little attention was paid to the underlying weaknesses of those emerging international positions; and, consequently, predictions about their duration and sustainability were

dramatically overstated. For instance, with this current fear about Japanese economic domination, when *American strengths* are considered in the same breath as *Japanese weaknesses*, it becomes apparent that "...economic competition from Japan does not threaten America's national security."⁴⁹⁸ The dislocations in American industry caused by Japanese economic competition were much more the fault of short-sighted US policies and practices in both government and business, than of Japanese competition itself.⁴⁹⁹ The Japanese sun is due to set in many areas of its economy, and it is only in its push for high-technology dominance that it will continue to be a fierce competitor of the United States. Even critics of Japan admit that:

Japan...has been admirably clearheaded about its economic interests. The purpose of our arguments [these critics say] is to encourage similar deliberation in the rest of the world. Other countries should decide, as Japan has, what their economic interests really are. If having particular industries, such as supercomputers, is as important to the U.S. as having an aircraft industry has been, then America should take steps to ensure their vitality, rather than badger Japan to abandon its own efforts. If the U.S. relies

⁴⁹⁸Trezise, 3.

⁴⁹⁹Thurow, The Zero Sum Solution, 360-361. Thurow contends that "Americans have to take much of the blame for the trade deficit with Japan. American firms have refused to design products explicitly for the Japanese market, have been shoddy in their quality control, have refused to learn the Japanese language and customs, have demanded instant success, and have often acted as if it is a duty of Japan to run its economy precisely as the U.S. economy is run."

too heavily on foreign capital, it should correct the habits that have made it so dependent.⁵⁰⁰

As the United States confronts this challenge to correct its own short-comings, rather than blaming Japan for its economic problems, the real issue is "...whether the American economy has the dynamism to maintain or raise the American standard of living, or whether the nation will slowly lose ground in relative terms."⁵⁰¹ While the Japanese may threaten to challenge the United States all along the high-technology frontier, it can only do so successfully if American "defensiveness and loss of confidence have crept into American industry and government."⁵⁰² According to Michael Porter, the United States is at an economic crossroads, and:

American firms and the American government have important choices to make. The nation is teetering between a renewed commitment to traditional American values and a retreat to consolidation, protection, and defensiveness.⁵⁰³

The assertion that the United States "...will remain a great power is not in doubt, because of its sheer size, resources, and strengths...."⁵⁰⁴ But the future of America's economic strength and competitiveness lies with the future

⁵⁰⁰Fallows, et. al., "Beyond Japan-bashing," 55.

⁵⁰¹Porter, The Competitive Advantage of Nations, 724.

⁵⁰²Ibid., 733.

⁵⁰³Ibid., 724.

⁵⁰⁴Porter, The Competitive Advantage of Nations, 724.

public policies of the United States, along with the individual actions of American citizens who have to respond to, and work within, those policies. That is why strengthening the American economy can only be achieved through the strengthening of American society and culture. James Fallows points out that "...the United States is not an ordinary society,"⁵⁰⁵ and, as he goes on to explain:

The differences between American and other cultures run deep and matter profoundly. They are differences of kind, not just degree. Of course people are essentially the same anywhere on earth, but cultures are not. America is unusual because of its fundamental idea of how a society holds itself together.⁵⁰⁶

The importance of this comes to the fore when one considers how American and Japanese cultures ultimately affect the performance of their respective economies. It has already been pointed out that Japanese industrial policy addresses itself to much more than just the price-competitiveness of Japanese companies, for its main approach has been to influence Japanese culture, and thereby increase the underlying efficiency of the Japanese people themselves. Japanese society has a "...nationalism that...is founded not on enlightened self-interest but...on a deeply ingrained sense of shared heritage

⁵⁰⁵James Fallows, More Like Us: Making America Great Again (Boston: Houghton Mifflin Company, 1989), 1-2.

⁵⁰⁶Ibid., 2.

and national destiny."⁵⁰⁷ The truth seems to be that "a society that is true to its own culture will usually have a healthy economy. It will have found the right way to elicit its people's best efforts."⁵⁰⁸ That is an approach which can work with the American people as well.

As Robert Reich explains, in the past, "individual [American] citizens supported education, roads, and other civic improvements, even when the individual was likely to enjoy but a fraction of what was paid out in the short term, because it was assumed that such sacrifices would be amply rewarded eventually. Civic boosterism, public investment, and economic cooperation were consistent with Tocqueville's principle of 'self-interest rightly understood.'"⁵⁰⁹ Consequently:

As our fellow citizens grew wealthier and more productive, we benefited by their ability to give us more in exchange for what we offered them. And we resisted opportunistic behavior, so did they, with the result that we benefited all the more. The resulting networks of economic interdependence induced the habits of citizenship.⁵¹⁰

⁵⁰⁷ Robert B. Reich, The Work Of Nations: Preparing Ourselves for 21st-Century Capitalism (New York: Alfred A. Knopf, 1991), 304-305. Reich points out, however, that "nationalism can be a hazardous sentiment. The same 'we're all in it together' attitude that elicits mutual sacrifice within a nation can easily degenerate into jingoistic contempt for all things foreign."

⁵⁰⁸ Fallows, More Like Us, 5.

⁵⁰⁹ Reich, 303.

⁵¹⁰ Ibid., 303-304.

Senator Daniel Patrick Moynihan has said that "the central conservative truth is that it is culture, not politics, that determines the success of a society. The central liberal truth is that politics can change a culture and save it from itself."⁵¹¹ With that liberal truth in mind, proposals for an American agenda can be suggested, so that the American people can begin to move forward into this post-Cold War era with a renewed sense of purpose and dedication. Because Americans are a diverse lot, it is always difficult to bring them together in any national effort short of war. That is why any list of proposals must start with some basic foundations with which almost all Americans can agree.

There are the places from which to start, for there are certain national interests which have always made up the cornerstones of American public policy. As Paul Nitze and the other framers of NSC-68 discovered, the best expression of those broad national interests is reflected in the Preamble to the Constitution of the United States, which states that:

We the people of the United States, in order to form a more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, do ordain and establish this Constitution for the United States of America.

This is the fundamental expression of why we exist as a nation. American national security policy must always be

⁵¹¹Fallows, More Like Us, 17.

cognizant of this constitutional framework, and any national objective formulated must have as its *raison d'être* the protection or strengthening of these listed principles. Policy-makers have a responsibility to fashion American goals in light of American interests, and in the global environment, where there are often many conflicting tugs at the nation's attention, the first order of business must always be to preserve the Republic. To this end, the United States must develop objectives which:

1. ensure its survival as a free and independent nation, with its institutions and people secure and its values intact;
2. promote an expanding, fundamentally sound economy which continues to ensure equal opportunity for individual prosperity;
3. maintain a firm resource base for national endeavors at home and abroad;
4. work for a stable international structure which fosters political freedom, democratic institutions, and human rights;
5. foster cooperative and friendly relations with allies and other friendly nations; and
6. preserve and repair the ecology of the planet.

These then, must be the cornerstones used to build American objectives and govern the general conduct of its policy. But, in order to protect and advance these seminal national interests, policy-makers need to formulate national security policy objectives which clearly support the American constitutional framework. These objectives must be broad

enough to encompass the areas of concern and specific enough for implementation. Through the next two decades, as the redefines its new role within this drastically changed international system, some of its basic objectives must be to:

1. **maintain a formidable and flexible military establishment** (both nuclear and conventional forces) capable of deterring any aggressive military actions against U.S. interests, and, if deterrence fails capable of defeating a military attack and ending the conflict on terms favorable to the United States and its allies;
2. **continue to foster an American identity through the promotion of English as the *common* language.** This, perhaps more than any other aspect of American culture, must be an integral part of the American identity. It is that identity which is "...America's greatest potential strength. Something about American values has enabled ordinary people, assembled haphazardly from around the world, to build the largest, richest, and freest economy in history, and to do so mainly through voluntary actions rather than state direction."⁵¹² Without a common language, we risk becoming Balkanized and losing the cohesive glue which binds so many different ethnic groups into the American Nation;
3. **build the best educational system in the world in order to ensure that America remains competitive in all areas of science and industry.** "America cannot regain preeminence in innovation without human resources at least on par with those in other advanced nations. While there is great strength at the highest educational levels, the average quality of human resources is lagging behind that of other advanced nations. As competition has internationalized and become increasingly based on knowledge, workers without skills are finding their livelihoods more and more threatened by the lower wages in developing countries. A fundamental commitment to upgrading human resources [through education] is necessary."⁵¹³ This process is also vitally important for the health of the democratic process itself. The Ameri-

⁵¹²Fallows, More Like Us, 49.

⁵¹³Porter, The Competitive Advantage of Nations, 725.

can public must be able to understand the complex issues which they face, and actively participate in the ordering of national priorities and objectives;

4. **balance the federal budget.** The United States cannot continue to increase the federal deficit without eventually squandering its economic strength. There must develop the political will to cut spending and raise taxes. Many analyst maintain that this "the most urgent economic problem facing [the United States] is reducing the dificit in the federal budget. This is crucial for stabilizing financial markets throughout the world and setting the United States on a course for regaining equilibrium in its external trade and payments and thereby reducing its heavy and growing dependence on foreign borrowing."⁵¹⁴ One way of dealing with this problem is to "...combine increased taxes on consumption, such as a tax on gasoline and a value-added tax, with cuts in the major areas of expenditure--defense and entitlements."⁵¹⁵ Fiscal security of the nation is a critically important aspect of national defense and security;
5. **increase American productivity in all sectors of the economy.** Many economists believe that "...'[while] our productivity growth rate does require careful attention, there is no basis for the fear that the nation has entered a period of permanent and disasterous decline.' But to remain ahead, the United States will have to improve its productivity....Among other things, this will require increased savings and investment, better use of human resources, improved industrial practices, and new technology."⁵¹⁶
6. **develop a long-range, comprehensive budgeting process for defense** which supports a national military strategy rather than attempting to drive it. Within certain constraints, the international threat to the United States must always be the driving determinant of defense requirements. Sufficient monies must be appropriated by Congress to ensure that adequate force levels and wea-

⁵¹⁴Edward K. Hamilton, ed., America's Global Interests: A New Agenda (New York: W.W. Norton & Company, 1989), 321.

⁵¹⁵Prestowitz, 314.

⁵¹⁶Nye, 211.

pons systems are available to allow the military to confidently carry out that national defense strategy;

7. **generate an integrated strategy for power projection around the world commensurate with the United States' emerging role as the fulcrum actor in what will eventually be a balance of power structure.** This would place increasing emphasis on the use of certain components of the military, like carrier battle groups, Special Forces, and the rapid-deployment ground forces like the Marine Corps;
8. **promote a free and open international economic system which ensures equal access to foreign markets in both trade and investment, the reduction of tariffs and other barriers to trade, the creation of free-market economies, and "America must also move aggressively, by national action under [such devices as] the Omnibus Trade Act and through multilateral action under GATT, to induce other governments to remove trade barriers that unfairly impede the expansion of American exports of goods and services;"**⁵¹⁷
9. **maintain a sound national economy with a strong and vibrant technological base which can support a formidable military establishment and compete successfully against foreign economic competition.** This is particularly important in regards to protection of technological components of U.S. weapons systems; applying "...selective investment tax credits for purchases of advanced factory and office automation equipment, and rapid regulatory approval of new products, are just two of the approaches employed elsewhere that hold promise" in this area.⁵¹⁸
10. **ensure that research and development in American science and industry are at the "cutting edge" of their fields.** This would require that the national government massively support and invest in both *military* and *commercial* R&D efforts through liberal grants and tax-relief; "The United States has an unequalled university system and a substantial public investment in R&D. The problem is not so much the size of public investment or the quality of the institutions, but the direction, rate, and priori-

⁵¹⁷Hamilton, 324.

⁵¹⁸Porter, The Competitive Advantage of Nations, 726.

ties of U.S. activity. While the United States spends heavily on research, it cannot rely on defense R&D as the engine of research and development in the United States.....More emphasis is needed on stimulating demand for innovative new products in addition to efforts to encourage greater R&D in firms. As experience in other nations has demonstrated, providing domestic buyers with incentives to purchase advanced goods is a powerful stimulus to innovation in the industries that supply them."⁵¹⁹

11. selectively use American influence and power throughout the world to counter threats to peace and stability, and to promote the continued establishment within the international system of free and democratic institutions;
12. restructure American alliances and treaty obligations to better reflect the United States's current interests around the globe now that the Cold War is over--relationships built during the era of bipolar confrontation were often based on nothing more substantial than a mutual concern over Communism. That can no longer be the guiding criterion for commitment of American support or prestige. "Cohesion of the alliance among the Western democracies endures as a primary American interest for the foreseeable future. The alliance is not only a vital instrument in itself, but also a bulwark of economic, as well as political, cooperation in dealing with issues in other parts of the world [like the Gulf]."⁵²⁰ But, in order to better position itself as the "fulcrum actor," the United States needs to reevaluate the degree of mutual interest it holds with all nations, regardless of prior political or ideological orientation, and then gradually construct new alliances based on those shared interests. As Lord Palmerston stated so eloquently, nations have no permanent friends and no permanent enemies, only permanent interests.

These broad objectives, in order to be effective in furthering American interests, must be incorporated into a long-term national vision which enjoys the wide-spread support and

⁵¹⁹Porter, The Competitive Advantage of Nations, 726.

⁵²⁰Hamilton, 327.

understanding of a majority of the American people. They must also be related to the means for achieving them, and these means usually come down to dollars. Without monetary support provided through the federal budget, many national objectives risk becoming nothing more than platitudes. A nation shows its real priorities by how it spends its money; therefore, the United States must design a great part of its national strategy through the budgetary process, because it is through the actual allocation of resources that American objectives are prioritized and pursued. A commitment of funds is critical for the accomplishment of any American objective, whether its is defense of the homeland or improving worker productivity. The United States can generate the funds for these objectives through a variety of ways. A sampling of these are listed below:

1. **Balance the budget and reduce the Federal debt;** this will not only reduce that significant percentage of the budget going to service that debt, it will also lower interest rates and raise the rate of investment, while significantly decreasing U.S. dependence upon foreign capital to finance the government bond market;
2. **Significantly raise the gasoline tax;** this will raise a tremendous amount of revenue, while at the same time cutting consumption. This will decrease American reliance on foreign oil imports, thereby helping to reduce the U.S. trade deficit, and it will pay an additional dividend in reduced pollution;
3. **Restructure and reduce the Armed Forces as planned;** this can realize multi-billion dollar savings, particularly in the area of strategic nuclear deterrence. The U.S. should scrap the overly redundant structure of the Triad and move towards a reduced strategic force, which has as

its two primary components, an increased fleet of Ohio-class SSBNs and a fully funded Strategic Defense Initiative;

4. **Dramatically increase taxes on industrial polluters;** this will raise funds necessary for environmental cleanup and drive industry towards production techniques and procedures which reduce pollution. The United States should also have a Federally mandated recycling program which penalizes individual waste;
5. **Increase Federal income taxes and increase incentives for increasing the national savings rate;** Americans cannot have the finest infrastructure and institutions in the world if they aren't willing to pay for them, and that requires federal expenditures as well as increasing the pool of private investment funds. A modest increase in the rate schedule could produce billions of dollars in additional Federal income; and, in addition, through "...tax policy (such as further limiting the deductibility of interest debt, raising margin requirements on credit purchases, and providing tax incentives for long-term forms of saving)...." the national savings rate can be boosted.⁵²¹
6. **Increase general tax revenues;** this can be accomplished through a combination of various devices, such as tax code revision, increased manpower for the IRS, and "user fees." Probably only a few additional billions of dollars, but as Senator Everett Dirksen once said: "...a million here and a million there, and pretty soon you're talking real money."

These are simply some macro-approaches designed to enhance the American position both domestically and worldwide, and thereby ensuring US economic strength and national security.

As Joseph Nye, Jr. confidently remarks:

The United States retains leadership in many high-technology products as well as in number of multinational corporations. It has a strong science and technology base, a deep-rooted entrepreneurial tradition, and well-developed capital markets. Capital is attracted to the United States because

⁵²¹Porter, The Competitive Advantage of Nations, 727-728.

the markets are safe and profitable, And, contrary to conventional wisdom, the American work ethic remains stronger than in many industrialized democracies, with a majority [of Americans] reporting 'an inner need to do the best job possible regardless of pay.'⁵²²

⁵²²Nye, 204-205.

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